



**Directorate of
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Third World Military and Economic Austerity: Implications for Political Stability

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A Research Paper

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November 1984*

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Third World Military and Economic Austerity: Implications for Political Stability

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A Research Paper

This paper was prepared by analysts in the
Directorate of Intelligence. Comments and queries are
welcome and may be directed to the Research
Director, Office of Global Issues,

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**Third World Military
and Economic
Austerity: Implications
for Political Stability**

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Summary

*Information available
as of 12 October 1984
was used in this report.*

Many military establishments in debt-troubled Third World countries face financial constraints. In many instances, military-expansion programs have been cut back or postponed, and planned equipment purchases have been reduced, in some cases sharply. Our limited information on how individual services are faring suggests that all of the services are being hit. For example, total Third World purchases of surface ships have been cut to only about one-third of the level that prevailed during the 1970s. LDC jet fighter purchases have also declined sharply in recent years.

In general, Third World countries ruled or tightly controlled by the military are witnessing military budget austerity as often as those under civilian governments. A rough indication of how the military is faring is the ratio of military spending to total government outlays. From 1980 to 1983, the military share of government spending declined in Argentina, Indonesia, Nigeria, and Panama. In Brazil, the military share—about 7 percent—rose slightly but is probably still below the average for Third World countries. Among major debtors, [redacted] Peru's share almost tripled to 25 percent, one of the highest.

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Although military concerns about morale and readiness are growing, the defense-spending cutbacks thus far have not resulted in regime-threatening instability. We have not observed much, if any, connection between military austerity measures and coup attempts [redacted] The only military coup to occur in a debt-troubled country since the financial crises surfaced in mid-1982 has been in Nigeria. In that case, the coup resulted from broader military dissatisfaction with the civilian-government performance rather than attempts to cut or change the military program.

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This is not to say that recent budget cuts have not concerned the military in key Third World countries:

- In the Philippines, low military sales have resulted in moonlighting and increased military abuses among the civilian population.
- In Chile, there is some discontent among junior Army officers over low pay and inadequate housing.
- In Nigeria, the military government is trying to placate junior- and middle-grade officers to forestall coup attempts.
- In Argentina, budget issues have heightened military criticism of the administration, especially among middle- and lower-ranking officers.
- In Morocco, military officials are concerned about dissension among junior and noncommissioned officers over basic problems such as pay and housing.

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It is not possible to determine whether or when this kind of military disgruntlement would lead to military actions against existing government authorities. We believe that the military by and large has been willing to accept austerity measures as part of a broader program aimed at economic stabilization. In our view, the military cuts most likely to trigger political instability would be those to military salaries and perquisites—moves that so far have been avoided or kept to a minimum.

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Table 1
Third World Military: Reaction to Economic Difficulties

Country	Status of Economic Adjustment Program	Impact of Economic Adjustment on Military *			Military's Response
		Budgeted Outlays *	Military Imports	Defense Industries	
Military Ruled					
Brazil	IMF-supported economic adjustment program	Up slightly	Remain low	Expanding exports	The military's concern about being held responsible for the failure of the current adjustment program has strengthened its commitment to return power to the civilians in March 1985.
Chile	IMF-supported economic adjustment program	Down from 1980	Some reductions	Expanding exports	Some discontent among junior Army officers over low pay and inadequate housing. Tight control of defense expenditures has not provided a backstop in the armed services.
Indonesia	Widespread government-imposed measures	Sharp increase	Some increase	Delayed or cut back	Plans to streamline the military have caused some grumbling by young officers who see their prospects for advancement reduced.
Nigeria	Widespread government-imposed measures	Slightly down	Some reductions and delays	No change	The military government is concerned about placing junior- and middle-grade officers to forestall a coup attempt. Numerous sources report growing perceptions among junior officers that the leadership is corrupt.
Pakistan	Limited government-imposed measures	Slightly increased	Increased significantly	No change	Morale in the armed forces is generally good. Pakistan's officers and enlisted personnel live better than most of their civilian counterparts.
South Korea	Limited government-imposed measures	Down very slightly	No significant effect	Scaled back	Reductions in defense expenditures have not been as significant as in other sectors of the budget and do not appear to have prompted any discontent within the military.
Military Dominant					
Argentina	Some government-imposed measures	Sharp increase	Reductions since 1982 Falklands war	New emphasis on exports	Budget issues have heightened military criticism of the Alfonsín administration, especially among middle- and lower-ranking officers. There are indications that senior officers are making the required cutbacks to maintain operational capabilities.
Egypt	Limited government-imposed measures	Increased sharply	Some increase	No change	Low pay for enlisted personnel has forced many servicemen to hold second jobs. Cairo is enhancing perquisites to maintain military morale.
Panama	IMF-supported economic adjustment program	Significant increase from 1980	Unaffected	Not applicable	Has not prompted any bad reaction from the military because it has not experienced budget cuts and relies on other sources for its income. Moreover, through Noriega, the defense forces are actually promoting economic adjustment measures.
Peru	IMF-supported economic adjustment program	Up sharply	Recent reductions and delays in procurement	Development slowed	Military has repeatedly warned the President over the past two years against drastic cuts in the military budget. Many officers hold second jobs.
Sudan	IMF-supported economic adjustment program	Slightly reduced	Significant reductions	Not applicable	The military perceives that a lack of key pieces of military equipment is hampering its fight against southern Sudanese dissidents.
Thailand	Limited government-imposed measures	Significant increase	Some increase	Unaffected	The military has been unaffected by the economic adjustment program. It continues to receive much of the equipment and materials it wants.
Turkey	IMF-supported economic adjustment program	Small increase	Unchanged	Development delayed or scaled back	The military has been generally supportive of the economic adjustment program. No significant discontent among military personnel.
Civilian Dominant					
Morocco	IMF-supported economic adjustment program	Large reduction	Extensive reductions	Not applicable	Economic problems affecting the flow of materials, a reduction in living standards, or political or military setbacks in Western Sahara may lead to disinfection in the military. Military officials are concerned over discontent among junior and noncommissioned officers over basic problems such as pay and housing.
Philippines	Widespread government-imposed measures	Down sharply	Some reductions	Not applicable	Low military salaries have resulted in moonlighting and increased military abuses against the civilian population.
Zaire	IMF-supported economic adjustment program	Cut sharply	Sharp reductions	Not applicable	Some discontentment among armed forces stationed outside the capital because of reductions in wages, food, and clothing.
Zimbabwe	IMF-supported economic adjustment program	Sharply reduced	Significant reductions	Not applicable	Budget was only recently released. If historical patterns are repeated, supplemental appropriations will be made to satisfy the military's demands.

* Comparison between early 1980s and present.
* Real terms.

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Scope Note

This research paper is part of the Directorate's ongoing study of Third World political instability. This report examines the role of the military in determining economic policies and performance in key Third World countries as well as the impact of economic austerity on the military in these states.

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Third World Military and Economic Austerity: Implications for Political Stability

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The Role of the Military in the Third World

After two decades of generally creditable economic performance, the Third World has fallen upon hard times. Unlike previous downturns, when certain LDCs such as the oil producers or the newly industrializing countries (NICs) were able to buck the trend, almost all major Third World countries are suffering. Although the degree of economic deterioration differs from [] Brazil to the Philippines to Nigeria, most Third World countries must contend with economic problems that could substantially affect their political stability. []

The interrelationship between economic developments and the military in many of these Third World countries will play a key role in determining whether or not political stability will be sustained. In some cases the armed forces are the only defense against revolt and external subversion. The power that defends the state, however, also can be a source of instability in its own right. []

The military, typically the strongest of many weak institutions in a Third World country, can often make or break an economic austerity program. Since World War II, Third World states under direct military rule have usually been better able to establish and enforce unpopular economic policies. States in which the military is dominant but does not rule directly generally have the poorest record for maintaining austerity. States in which civilian governments—either democratic or authoritarian—are dominant have a mixed record. Those with well-established authoritarian parties, such as Taiwan, Singapore, and Mexico, generally are able to enforce austerity, whereas effective democracies such as Venezuela and personalist dictatorships such as Haiti have much more difficulty. []

The Strongest Institution

In most Third World countries, the military is the strongest institution. Governments, whether nominally democratic or dictatorial, are typically high-wire

acts trying to fend off domestic and foreign interest groups. The typical Third World president, with much of his energy devoted to remaining in power, has neither the time nor the authority to lead the nation. Similarly, political parties, labor unions, and professional groups are typically vehicles for the aggrandizement of a dominant person or small group and can have exceedingly shallow roots and little staying power. Such organizations frequently lack ideology or constant principles; as mere reflections of their leaders' ambitions, they seldom outlast their founders. []

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The military, by contrast, almost always transcends its leadership. Often (as in Algeria) it was formed out of a guerrilla army that had the prestige of having defeated the colonial power. In other cases (as in India and Pakistan), the military reflects the discipline, efficiency, and service tradition instilled by the colonial power. In Latin America the military often has a tradition of over a century in countries where the life of a political party is measured in months or years. Moreover, unlike most other Third World institutions, military establishments enjoy the reputation of military heroes and victories. Most important, the military heroes tend also to be the heroes of the nation. []

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In most Third World countries, the military considers itself—and is viewed by most of the population—to be more unified, disciplined, and honest than the country as a whole. This perception is usually accurate. In Egypt and India, for example, the military is considerably less corrupt than the rest of society. The military also stands out as the most disciplined and unified element in undisciplined and divided societies. This is the case in most Latin American countries as well as elsewhere in the Third World. []

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The final element in the military's institutional strength is its near monopoly on the use and threat of force. Despite the potential opposition of police forces and labor or party militias—and, in some cases, the presence of guerrilla or terrorist groups—the military generally has the muscle to win contests with other domestic groups. In most LDCs this is not true of any other actor, including the chief of state. The ability of the military to get its way is reflected in budgetary decisions as well as broader political decisions. In half of the 19 states we examined, for example, the military accounts for approximately 20 percent total budget outlays. (See table 2.) []

The Unifier of the Country

Most LDCs have little geographic or ethnic unity, and many lack religious and linguistic unity as well. In such countries the military is often the most potent unifying force. Political parties, by contrast, usually reflect ethnic, linguistic, or class differences, and tend to divide rather than unite the nation. Although the military is not completely free of ethnic bias—in Guatemala, for example, the largely Indian Army has few if any Indian officers—they generally downplay ethnicity in favor of a broader patriotism and professionalism. Draftees are taught the national language, and, by being stationed away from their native village, gain some knowledge of the country as a whole. Moreover, an attempt is made to instill loyalty to the military—and therefore to the nation—at the expense of more parochial loyalties. []

At the same time the military is often the only means of social and economic mobility in stratified societies. In most Third World countries, the army officer corps is lower middle class—the sons of village shopkeepers, small-scale ranchers, and the like. For those few officers with sufficient courage, intelligence, ruthlessness, or luck, the military offers wealth, social standing, and political power. Even less talented officers usually manage to raise their status by a notch or two. Moreover, in countries such as Indonesia and Argentina where the military controls much of the industrial sector, profitable positions are found for relatively large numbers of officers and NCOs. []

The Guarantor of Political Order

As self-appointed “guarantors of political order,” LDC military establishments can threaten stability.

Most military coups are not simply power grabs by ambitious generals. Rather, they are attempts to “save the country from its government” by military men who consider themselves to be more patriotic, capable, and honest than the civilians they wish to replace. The generals usually believe that, unless they move, the country will fall prey to anarchy, civil war, gross corruption, or civilian dictatorship. Since coups are rarely staged against popular and capable governments—the move against Bhutto in Pakistan was a partial exception—they are usually supported by most civilians. An initially popular military government may soon lose much of its popularity, however, as in Chile, Brazil, and Argentina. Other coup leaders, such as Nasir, may maintain their popularity for decades. []

The military sees itself as the obvious guarantor of political order because of its relative unity, discipline, and honesty; its continuity and ties to past glory; and its relative indifference to ethnic, class, and other divisions. Among LDC institutions, only the church (or mosque), the university, and—on rare occasions—the monarchy, the press, or a political party have the self-confidence to rival the military as an alternate “conscience of the nation.” Despite exceptions such as Iran and Nicaragua, the military usually defeats all comers. []

The Protector of Internal and External Security

Although strong military establishments often disrupt political stability, the military is also the main line of defense that a Third World government has against subversion, revolt, or foreign attack. A weak military, therefore, can also contribute to instability when it fails to perform these defense functions. The Mexican Revolution of 1910 was successful in part because President Diaz had deliberately weakened the Mexican Army to guard himself against coups. Similarly, one team of Latin American scholars attributes the Sandinista victory to Somoza's unwillingness to finance the Nicaraguan National Guard at a level commensurate with the demands placed upon it. Costa Rica's elimination of its armed forces, a move that effectively protected the nation from coups, could leave it open to Nicaraguan aggression. []

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Table 2
Third World Governments:
Military Budget Estimates

	Military Budget (billion US \$)	Share of Government Budget (percent)	Share of GNP (percent)		Military Budget (billion US \$)	Share of Government Budget (percent)	Share of GNP (percent)
Argentina				1984	0.088	3.4	NA
1980	0.3	15.1	0.2	Peru			
1983	4.0	12.5	6.0 ^a	1980	0.3	9.5	1.8
Brazil				1983	1.2 ^c	25.0	5.1
1980	1.5	6.8	0.7	Philippines			
1983	1.8	7.5	0.6 ^a	1980	0.8	15.1	2.2
Chile				1984	0.3 ^d	9.5	1.6
1980	1.1	16.0	5.5 ^a				
1983	0.8	18.5	5.5				
Egypt ^b							
1979	1.5	19.0	8.4	South Korea			
1984	2.5	21.6	8.8 ^a	1981	4.4	37.0	6.7 ^a
Indonesia				1984	4.3	33.2	NA
1980	1.5	13.0	2.2	Sudan			
1983	2.8	11.8	4.0	1979	0.244	11.0	3.2 ^a
				1983	0.222	9.5	3.1 ^a
				Thailand			
Morocco				1980	1.0	18.6	3.0 ^a
1981	1.8	35.0	12.2 ^a	1984	1.7	19.8	NA
1983	1.1	22.2	7.3	Turkey			
Nigeria				1980	2.4	16.0	4.1 ^a
1980	1.7	9.7	1.8 ^a	1983	2.5	22.3	5.2 ^a
1984	1.5	9.3	1.8	Zaire			
Pakistan ^c				1980	0.071	7.1	2.2
1980	1.3	23.2	5.4 ^a	1983	0.048	7.1	NA
1984	1.9	26.5	6.2 ^a	Zimbabwe			
Panama				1980	0.600	37.0	10.9
1980	0.040	4.4	1.2 ^a	1983	0.343	11.9	NA

^a Share of GDP.^b Excludes or undercounts purchases of military equipment from abroad and expenditures associated with military-production companies.^c Military expenditures.^d Does not include any US military assistance.^e Fiscal year.

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Rivals to the Military

Although the military is by far the dominant institution in the Third World, in some countries it is challenged, or even eclipsed, by other actors. Successful institutional challengers to the military usually share at least some of the characteristics that explain military dominance in other countries. For example, like the military, the challenging institutions tend to be less personalistic than other elements of society; they have continuity and tradition and are often heirs to past glory; in many cases they provide advancement in stratified societies; and they may maintain their own armed units—secret police, party militia, or revolutionary guards. []

The religious establishment, especially in Islamic and some Catholic countries, is often the strongest rival. In Iran, revolutionary Islam has eclipsed all other groups, and Islamic groups are strong political factors in countries ranging from [] Egypt to Indonesia. In the Philippines the Catholic Church is an important political player. In Latin America, the Church has lost most of the political power it held in earlier periods, largely because of a series of successful attacks by anticlerical governments in the 19th century but also because in many countries it is split between radical and conservative wings. Nevertheless, it is an important political actor in some countries, such as Nicaragua, or regions, such as Brazil's Northeast. []

The monarchy remains the dominant political actor in [] Morocco, as it was recently in Iran and Ethiopia. In some other countries, such as Thailand, the monarchy is an important, but not dominant, force. Although political parties are not generally well developed in the Third World, they dominate the scene in democracies such as Costa Rica, Venezuela, Colombia, and India. []

Most LDC governments, although well aware of the coup danger, opt for a strong military. Few Third World regimes believe this to be the waste of money that it is considered among some Western critics.

Wars, skirmishes, and border disputes that could escalate have been frequent: India-Pakistan, Iran-Iraq, Argentina-United Kingdom, Egypt-Libya, Peru-Ecuador, Thailand-Kampuchea, and Guatemala-Belize, to name just a few. Some Third World nations, such as Pakistan, India, Turkey, and South Korea, share borders with Communist powers or surrogates. Others, such as Nigeria, Sudan, Peru, and the countries of Central America face or have faced internal war. Still others, such as Brazil and Uruguay, faced terrorist/urban guerrilla threats that were beyond the capabilities of civilian police. In all of these cases, a strong military was seen as a necessity. []

Economic Crisis and the Military

To understand the dynamics between economic crisis and the military, it is useful to divide Third World countries into three groups—military-ruled states, military-dominant states, and civilian-dominant states. The relative differences in the power of the military among these three categories cause different reactions to similar external or internal economic pressures. In several Third World countries, however, the military establishment has shared in the economic austerity that these countries are experiencing. Although the cutbacks have not resulted in regime-threatening instability, military concerns about morale and readiness are growing. (See table 2.) []

Military-Ruled States

States under direct military rule have one great advantage when facing severe economic problems—they do not have to worry about keeping the armed forces happy. Such regimes feel free to hold down military budgets, if they believe such action is necessary for economic health.¹ This was clearly the case when the military took over in Chile and Brazil. It should be noted that Argentina and Peru increased their military budgets after the civilians came to

¹ Of course, military-ruled countries that face clear military threats from their neighbors—such as South Korea and Pakistan—must balance the need for economic austerity with the need for armed strength. []

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power, while the military government of Nigeria is spending less on the armed forces than the civilian government it ousted. The military also can force unpopular but necessary economic measures on other elements of the population. In this instance, Brazil in the late 1960s presents the best example. []

Military governments are not intended to be permanent, however, and problems arise during transitions to civilian rule. Once a transition has begun, even if nominal military power still has years to run, the military can no longer knock heads with customary abandon; it must cajole rather than control the civilian population. Thus, while it can still cut back defense spending, it may have lost the ability to raise taxes on businesses or to hold down workers' wages without strong political backlash. Moreover, any steps to reimpose military authority over the civil economy—no matter how necessary—would be seen at home and abroad as attempts to block the restoration of democracy. Brazil in the 1980s is perhaps the best of several examples. []

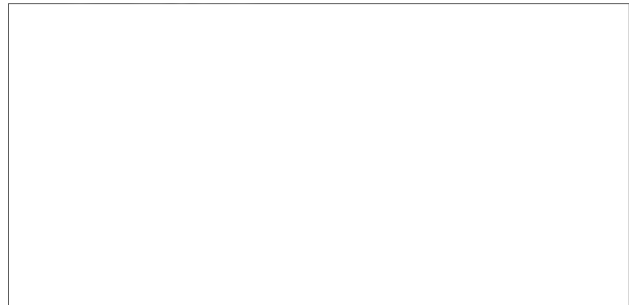
Under certain circumstances, military regimes must also fear their companions in arms. The issues involved in a military coup against a military government are rarely economic. []

[] The most common explanations given by the leaders of military-against-military coups are that the military government: has not kept its promises, such as ending civilian corruption or establishing domestic peace; is seeking to perpetuate itself in power; is forcing the army to take "police type" actions against civilians; has become corrupt; or is kowtowing to foreign forces such as aid donors, banks, or the IMF. Coups in Argentina, Peru, Guatemala, and throughout Sub-Saharan Africa are good examples. []

Military-Dominant States

Governments in states where the military does not rule but has the capacity—and precedent—to intervene at any time tend to be weaker than either military regimes or governments in civilian-dominant states. These governments must constantly avoid offending any important part of the military establishment to prevent triggering a coup. Often they lean over backwards to give the military benefits. When

Why Coups Occur



[] coups require a particular political environment. Most or all of the following factors are present: a fragmented society; major policy differences between the government and the armed forces; a perceived government assault on corporate military interests or dignity; widespread complaints over pay, benefits, or career changes; and public or private military complaints to the government. []

Military establishments, however, can survive extended periods of political environments conducive to coups. Coup plotters generally act only after a series of precipitating events such as a political crisis; a major public demonstration; an impending or recent election; a major purge or reorganization of the military; the arrest of a key military or civilian leader; the assassination of a major government figure; or the absence of the chief of state. []

Although background factors and precipitant events determine whether or not a coup will be attempted, the success of the attempted coup depends on the plotters. Most successful groups of plotters have cohesion developed through long experience together. []

other things (such as the level of external threat) are equal, such governments tend to have much higher military budgets than governments run directly by the armed forces. Their fear that domestic disorder may become an excuse for a coup can lead them to take

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much harsher action against civilian dissidents than a purely military regime would be likely to take. Such regimes are also prone to try to buy domestic peace through expensive subsidies, wage increases, and similar measures. The outlook for effective action against economic problems is generally poor in these states; Peru is an example. []

The military, which often shows great responsibility and self-restraint when governing directly, may be notably irresponsible and unrestrained when dominating a civilian regime. Under these conditions, it is largely concerned with purely military requirements and desires. Moreover, individual services or even individual officers may vie with each other for ever larger shares of the resource pie. Nationalistic officers with no direct responsibility for the economy may find government dealings with foreign banks or the IMF to be a "betrayal of national sovereignty." At the same time, populist officers may find government wage restraints or devaluation to be "crimes against the people." []

In military-dominant states, the bottom line is often that no one is willing to take responsibility for the economy. The civilian government sees survival as its highest duty to itself and to "democracy." Thus it is highly unlikely to take economic measures that could offend the military or cause domestic turmoil. The military, on the other hand, usually is not united on economic policy at this stage and thus exerts contradictory pressure or gives no direction at all to the government on economic policy. Only when economic disaster is at hand is the military likely to seize power and establish its own economic policy. []

Civilian-Dominant States

The civilian-dominant states of the Third World have much less in common than do either the military-ruled or the military-dominant countries. They include democracies like Venezuela, authoritarian party states like Mexico, monarchies like Saudi Arabia, quasi-dictatorships like the Philippines, and theocracies like Iran. They may be as well run as Singapore, as bureaucratic as India, or as brutal as Haiti. They may be as prosperous as Taiwan or as poor as Guyana. Military budgets are rarely immune from budget cuts. In the Philippines, for example, the military budget has decreased appreciably in real terms over the past several years. []

In general, the civilian-dominant states cope poorly with economic difficulty. In a few cases—such as those of Iran and some civilian-dominant states in Sub-Saharan Africa—this is because they are wedded to an economic ideology that is inappropriate. But in most cases, poor economic performance is related to the political weaknesses of the civilian governments. These governments are afraid to establish and persevere in unpopular economic policies because they depend on the votes of a grasping or unsophisticated electorate—in effective democracies such as Costa Rica and Colombia—or because they must buy off interest groups or powerful individuals—in less-than-democratic states such as Kuwait and Morocco. []

Those civilian-dominant states that are able to enforce austerity—Taiwan, Singapore, Mexico, and perhaps a few others—have strong political machines that dominate the country's political life. These machines are typically authoritarian parties with demonstrated legitimacy and staying power and with a near-monopoly on the distribution of benefits within the society. Such parties, despite their authoritarian cast, are usually reasonably popular because they are open to talented newcomers and are recognized as having brought stability and economic progress. Where popularity is not enough, such parties are generally willing to use force. In this respect authoritarian party governments tend to resemble the governments of military-ruled states. []

Outlook for US Interests

It is in the US interest to have the Third World prosperous, stable, and democratic. Given the present state of the world economy, few LDCs will be characterized by all three conditions. Many—perhaps most—will be neither prosperous, stable, nor democratic. Those with a strong military or civilian leadership will be in the best position to implement the economic policies needed to assure long-term prosperity. We also believe that cuts in military or civilian budgets can be accomplished in these instances with the least danger of sparking political instability. Weak governments or governments in transition face much higher instability risks when attempting to impose stiff belt-tightening measures on society. []

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Third World Prosperity

To some extent, the economic success of Third World countries depends upon factors over which they have little or no control. Even the wisest and most self-sacrificing of economic programs can be thwarted by a steep rise in interest rates, a fall in commodity prices, a series of droughts, or a recession in the developed world. Moreover, the various LDCs are far from being equal in human or natural resources, infrastructure, or geographic location. Given these caveats, the countries with the most suitable economic policies will have the best chance of solving their economic problems. Economic policies must be both formulated and implemented, and some countries, because of ideological blind spots, appear incapable of formulating sound policy. Bad policy, no matter how forcefully implemented, will not work even in countries, like Iran and Tanzania, which have good resource bases. []

As often as not Third World governments have formulated sound economic policies. The difficulty has been that they frequently are too weak to implement them over the long term. We believe that this is most often the case with military-dominant and some civilian-dominant states. Third World states ruled directly by the military or by established authoritarian civilian parties have the best chance of staying with economic policies even when they are unpopular with important segments of the population. Governments ruled directly by the military or by established authoritarian civilian parties also generally do a better job than the others in formulating sensible policies, but there are frequent exceptions. []

Third World Stability

Austerity programs—involving elimination of food subsidies or price hikes for basic commodities, for example—almost always undermine short-term political stability. The argument is frequently made that such programs are usually stabilizing in the long run; the counterargument raised by Third World political leaders is that a country that succumbs to instability in the short run never gets to the long run. Only the most secure governments can afford to take major short-term risks for long-term benefits. Others must temporize, hoping that half-measures will both keep the political lid on at home and encourage some loosening of international pursestrings. Often neither result is achieved. []

In the absence of public consensus favoring austerity—rare in the Third World and even in the developed world—the greatest risk is run by those countries where voting, legislative approval, and public opinion are crucial to the political process. This category includes such countries as Brazil, which is in transition from direct military rule; Argentina, a military-dominant state in which the military is abashed and a large populist political party is playing an obstructive role; India, where a would-be authoritarian ruler still depends on votes; and democracies such as Venezuela where political parties are of near-equal strength. The nature of their economic problems will eventually force these countries to take significant austerity measures that, because of the hard political divisions within the state, could trigger popular unrest. []

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Military-ruled states and states with established authoritarian parties stand the best chance of enforcing austerity while avoiding serious unrest. The danger is that these states may trust their strength too much and demand more austerity than the public is willing to tolerate. In extreme cases, such a course could lead to severe instability or even revolution. We believe that states such as Mexico, Indonesia, South Korea, Taiwan, and Pakistan have governments that are strong enough to enforce the required degree of austerity and sensitive enough not to go too far. []

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Third World Democracy

Economic crisis is not good for democracy in the Third World. States that maintain democratic institutions in good times may bypass these institutions when times are hard. Labor unions or local governments may be intervened by the central government. Martial law or a state of siege may be declared. Elections may be postponed. Real or imagined "economic criminals" may be punished with little regard for human rights or legal niceties. Strikes, demonstrations, and food riots may be put down brutally. If an elected government appears unable to cope with the crisis, there may be a public demand that the military take over. This has happened repeatedly in Argentina as well as in

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Brazil in 1964. Inability to solve economic problems was a factor in coups in Indonesia, Pakistan, Chile, Bolivia, Nigeria, and a host of other LDCs.

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Sometimes, however, severe economic problems may push a country toward democracy. Military or authoritarian regimes may find themselves so overwhelmed with economic problems that they will institute elections to rid themselves of the problems of government. Economically inept military governments have repeatedly used this tactic in Argentina.

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Zimbabwe's Military: The Impact of Economic Austerity []

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Despite the foreign exchange crunch and significant cuts in the defense budget, the Zimbabwe Defense Force continues its modernization program. Although we expect that the armed forces will have to reduce, spread out, or forgo some foreign procurement, defense expenditures in fiscal year 1985 (July 1984-June 1985) probably will exceed allocations, increase friction within the government, and hinder negotiations between Harare and the IMF. []

The Role of the Military

Since independence in 1980, the military has been tasked with both defending against foreign threats and helping the understrength national police to maintain internal security. Recently, however, Harare appears to be reevaluating its futile pursuit of an anti-South African capability. []

[] probably will convince Harare to spend less on conventional defense over the next year or two and to strengthen forces combating antiregime dissidents. [] the expense of defending against a conventional attack from South Africa is a prime element in reassessing defense priorities. []

The Army assumed a third mission in November 1982 by sending three battalions into Mozambique at the request of President Samora Machel. These units—the first deployed outside Zimbabwe—were to protect the critical Beira-Mutema oil pipeline from Mozambican insurgents, and to patrol the border with Mozambique's Tete Province. Zimbabwe increased its commitment in Mozambique this year when a fourth battalion was sent to replace ineffective Mozambican forces escorting truck convoys from Malawi to Zimbabwe. We believe that Zimbabwe now has about 3,000 troops in Mozambique. []

Mugabe and the Military

The civil war yielded two tribally based and competing guerrilla armies, an expanded white Rhodesian security force, and the general militarization of Zimbabwean society. At independence, all these armed forces were combined into a national Army. Deeply rooted tribal and personal rivalries were often only papered over, however, and have resurfaced as several units have mutinied. []

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Mugabe moved to strengthen discipline and firmly control the Army, initially by retaining the defense portfolio for himself and by restructuring the forces. As the Army shrank from over 60,000 to about 42,000 troops today, Mugabe attempted to create a force that would be dominated by those former guerrillas loyal to the ruling party. The government also created two Army units composed of party loyalists and trained by North Koreans: a 5,000-man 5th Brigade and a 3,000-man Presidential Guard. Moreover, the North Korean-trained People's Militia, organized in 1982 to help control dissidents and ultimately to include 20,000 members, is intended to be the ruling party's "eyes and ears," []

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Mugabe has tried to give senior military officers a vested interest in his continued rule by involving several of them in party affairs. []

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Four of 14 Politburo members are closely connected with the Zimbabwean defense establishment. He has also allowed several top civilian officials to share responsibilities for defense and security policy. []

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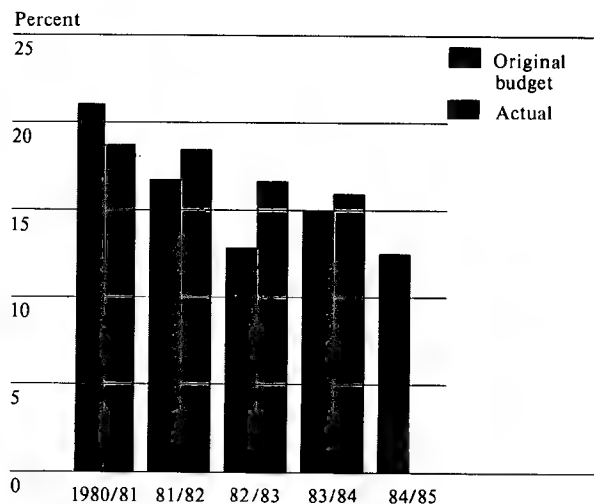
The Political and Economic Backdrop

Prime Minister Robert Mugabe's stated goal is to transform Zimbabwe into a one-party socialist state. Financial realities have slowed Mugabe's progress toward this goal and his economic reforms so far have been cautious. Zimbabwe now faces its worst economic crisis since independence. Three years of devastating drought and the continuing effects of worldwide recession have caused a slowdown in real GDP growth from annual rates of 12 percent in 1980 and 1981 to only 2 percent in 1982, and a decline of about 3 percent last year. Harare has reacted by cutting back on social spending and food subsidies, imposing wage controls, increasing taxation, and restricting foreign payments. []

Zimbabwe's budget for fiscal year 1985 is aimed at slowing the rising government deficit. Expenditures are set to increase by only 7 percent, although the prevailing rate of inflation is 19 percent. Nevertheless, the planned deficit of \$560 million represents 11 percent of projected national income—substantially above the IMF's guideline of 5.5 percent—and may hinder negotiations between Harare and the IMF. Harare's last standby agreement with the IMF collapsed when it could not meet the Fund's targets, and, as a consequence, little foreign exchange is available for overseas purchases. []

To resume the growth it enjoyed in 1980 and 1981, Zimbabwe must resolve its foreign payments problems—including a ratio of debt service to exports exceeding 25 percent—and reduce government expenditures. Foreign exchange difficulties will worsen in fiscal year 1985 because Zimbabwe needs to import up to 400,000 tons of corn and wheat. Short-term opportunities to improve export performance are limited by the drought and by continued soft markets for Zimbabwe's mineral exports. Longer term prospects hinge on Harare's ability to attract foreign investment. Zimbabwe's investment policies, however, remain ambiguous; Harare welcomes investment, but manages the economy through controls that diminish private-sector incentives. We expect foreign exchange constraints to plague Zimbabwe for several years. []

Zimbabwe: Defense Expenditures as a Share of Total Budgetary Expenditures, 1980/81-1984/85



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The Military and the Budget

Military expenditures, particularly foreign purchases, will be targeted to narrow the budget deficit. The military's share of government expenditures has declined steadily since fiscal year 1981, even though defense spending in the past three fiscal years has exceeded allocations. The postindependence demobilization of one-third of the large national Army slowed the rate of increase in defense spending, while new social programs spurred increases in nondefense allocations. []

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An important trend has been the increased demands by the military on Zimbabwe's scarce foreign exchange. Whereas over 75 percent of the fiscal year 1982 defense budget was devoted to personnel costs,

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emphasis has shifted recently toward foreign equipment and training of blacks to take over from white officers who are emigrating. Moreover, although total defense spending in terms of local currency has grown, the declining value of the Zimbabwean dollar has reduced the overseas purchasing power. []

The demands of the military for more modern equipment have irritated some Zimbabwean Cabinet members. Finance Minister Chidzero, a moderate in the Cabinet, []

[] has pushed for cuts in defense [] Chidzero was particularly angered by the Army's recent purchase of 90 Cascavel armored cars from Brazil. []

The defense allocation has been cut 16 percent in nominal terms for the fiscal year 1985 budget, an almost 36-percent cut in real terms on domestic purchases and 60 percent in real terms on equipment purchased abroad. Much of the reduction in foreign purchases represents the transfer of expected fiscal year 1985 funds into fiscal year 1984 to cover the accelerated purchase of the Brazilian armored cars. Funds for operation and maintenance of the Air Force are scheduled to be cut from \$19 million to \$12 million. []

Foreign Military Procurements

Zimbabwe relies on Britain, North Korea, China, Pakistan, and Brazil for military training and over 90 percent of its equipment purchases. After independence, a British Military Advisory and Training Team (BMATT) arrived to assist with the transition to a national Army. The BMATT's services were funded entirely by London, and several British firms sold military equipment to Zimbabwe. The most notable of these purchases were the jets from British Aerospace. Zimbabwe's Air Force suffered a serious loss in July 1982, when sabotage of the Thornhill Base destroyed or damaged a dozen of these aircraft. The subsequent trial of several senior white officers accelerated the departure from the Air Force of other white personnel. []

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Britain was supplanted as the major source of foreign military assistance following a 1980 North Korean commitment of military equipment to outfit the 5th Brigade. Although Harare reportedly reduced the number of North Korean instructors from over 100 to about 30 in mid-1982 and has turned instead to the British for armor training, it has maintained the North Korean connection, presumably to demonstrate nonalignment. []

China also has become an important source of military equipment and training. About 30 Chinese instructors have been training Zimbabwean armored units since late 1983. [] Harare has ordered for delivery next year 20 Chinese F-6 jet fighters. Moreover, []

Zimbabwe's Air Force suffers from shortages of skilled pilots and navigators, maintenance equipment, and repair skills. Last year, Zimbabwe signed an agreement with Pakistan for three years of training and logistic support for the Air Force. []

Zimbabwe's recent purchase of 90 Cascavel armored cars from Brazil is the largest defense acquisition by Harare since independence. The deal, part of a five-year program announced in early 1983 to replace obsolete Army vehicles, includes spare parts as well as training for gunners, drivers, and maintenance personnel. The purchase almost triples Zimbabwe's inventory of armored cars. The new relationship with Brazil further diversifies Zimbabwe's sources for arms but complicates training and logistic support. []

Outlook

Although Zimbabwe will remain incapable of defeating a determined South African invasion, foreign training and deliveries of military equipment are strengthening Zimbabwe's forces to deal with lesser and more likely threats. Most notably, improved

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Zimbabwe: Major Arms Deliveries and Training, 1980-84

Year	Item	Cost and Supplier	Remarks
1980-84	Training	NA, Britain	130 instructors reduced to 60 in 1983
1981-84	Training	\$24 million grant, North Korea	50 to 140 instructors for 5th Brigade and Presidential Security Unit
1981	22 T-55 tanks, fourteen 122-mm artillery and rocket launchers, 30 mortars, and over 4,000 rifles	Included in grant, North Korea	For 5th Brigade
1981	Two Canberra bombers, five Hawker Hunter fighters	\$2 million, Britain	
1982	107 trucks and 32 other vehicles	\$7 million grant, North Korea	For 5th Brigade
1982	8 Hawk ground attack and trainer jets	\$72.3 million, Britain	
1983	Training	NA, China	30 instructors
1983-84	Advisers and training	NA, Pakistan	60 officers, and logistics specialists for Air Force
1983	Small arms and ammunition	\$4 million, USSR	Only known Soviet delivery
1983	17 SF-260 turboprop trainers and two Bell 412 helicopters	\$12.5 million, Italy	
1983	Two Casa 212 light transport aircraft	\$5.8 million, Spain	\$17 million deal includes four more aircraft to be delivered
1984	90 Cascavel armored cars	\$41 million, Brazil	Largest arms deal since independence

mobility will enhance antidissident operations in Mat-abeleland and perhaps enable more effective protection of truck convoys in Mozambique. But the Air Force is largely nonoperational because most of its aircraft have Pakistani pilots who cannot participate in combat operations. []

Although we expect a supplemental defense allocation and overspending this fiscal year, in our judgment, the military will have to restrain its modernization program. Defense funding probably will become an increasingly contentious issue in the Zimbabwe Cabinet, as well as in negotiations between Harare and the IMF. []

The military continues to explore other possibilities for acquiring major defense items. Such plans are likely to depend on concessionary financial terms, which many West European and Third World suppliers are increasingly reluctant to provide. As a result, Zimbabwe's financial problems might provide an opportunity for the Soviet Bloc to expand its incipient arms relationship, something that Harare has so far resisted. []

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Argentina

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The Argentine Military: Impact of the Economic Crisis

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The Argentine military, traditionally insulated from fluctuations in economic performance, faces severe budget cuts over the next several years as President Alfonsin tries to reorder the country's shattered economy and bring the military under closer civilian supervision. As a result, after considerable hesitation—inspired partly by concerns over the military's reaction—Alfonsin has reduced armed forces expenditures to about 60 percent of 1983 levels. In this way he hopes to increase the funds for economic reactivation and social programs while making his economic policies more palatable to foreign creditors. In addition, Alfonsin has implemented other reforms to promote interservice cooperation, which he believes will lead to further economies and make the services more responsive to civilian authority.

During the first four months of 1984, the cuts appeared to have little impact on military operations. Since then, however, constraints have exacerbated interservice rivalries, reduced morale, and diminished military capabilities.

Moreover, the budget cuts have been a major cause of growing military dissatisfaction with the government. Disgruntled noncommissioned officers have formed organizations on several military bases, and some senior officers from all three services have done so as well, despite ongoing interservice rivalries. Such opposition, however, is still relatively isolated and no clear figure has emerged around whom dissident commanders are likely to rally.

We estimate that any major near-term confrontation between the government and the armed forces would be preceded by a sharp deterioration in the economy, which would generate widespread social unrest and renewed terrorism. Executive or legislative policies that appear to threaten the military, especially in the area of human rights investigations, could also spark a showdown. Even then, in our view, divisions between and within each of the services and the current lack of broad popular support would make a successful coup difficult.

Political and Economic Backdrop

Argentine military officers tend to be fiercely nationalistic and in general share a deep distrust of civilian government. The armed forces have moved against elected officials, however, only when civilians, themselves concerned about economic political instability, have convinced the military that the majority of Argentines backed intervention. Thus, with civilian connivance, the military has overthrown elected governments six times since 1930, most recently in 1976.

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Until the 1976 intervention, military officers played the role of arbiter, holding power only long enough to assure a smooth return to civilian rule. Following the 1976 coup, however, the armed forces were not only guarantors of peace, but became reformers bent on rooting out what they saw as the source of Argentina's chronic instability—leftist subversion, a corrupt labor and political leadership, and economic mismanagement.

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The military assumed office in 1976 amid 400-percent inflation and widespread terrorism. The regime adopted measures to stabilize the economy and restore international investor confidence. Exports increased, the public deficit as a share of the GDP dropped, and soaring inflation was slowed dramatically. The economic measures, however, were at a high cost to workers, who saw their living standards drop sharply. At the same time, the security forces defeated the leftist guerrillas in the so-called dirty war, during which thousands of suspects were detained and subsequently killed.

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By 1981, pressure for a return to civilian rule had started to build. Economic mismanagement and rapidly accumulating foreign debt, combined with the onset of the worldwide recession, led to an economic downturn. This, combined with the growing realization of the widespread abuses of human rights, had all

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but discredited the military. The 1982 Falklands war further damaged the economy and convinced many senior commanders that they should return to the barracks and focus on correcting the serious military deficiencies highlighted during the conflict. Left without civilian support, the armed forces scheduled elections for October 1983. By mid-1983, the inflation rate had surpassed 300 percent, and an IMF program, negotiated only months earlier to stave off default on the foreign debt, unraveled. []

Spending Spree

Following the 1976 coup, the military undertook a major weapons modernization program that was largely unaffected by variations in overall economic performance. The share of the national budget claimed by defense and internal security climbed steadily between 1976 and the onset of worldwide recession in 1982. At its peak in 1981, military expenditures were 22 percent of the budget, slightly less than the combined outlays for health, education, and social welfare. Moreover, these figures exclude the massive expenditures by the vast network of military-owned industries that expanded during this period and include such diverse businesses as steel mills, arms factories, nuclear research facilities, lumber mills, resort hotels, and gambling casinos. Some academics and other observers estimate that the military's holdings may produce nearly half of GDP. []

The massive purchases of weapons began after the Argentines narrowly averted war with Chile in 1978 over the disputed Beagle Channel. Buenos Aires was determined to maintain a large margin of strength over Santiago in preparation for any confrontation. The US Defense Department estimates that during 1978-81 the Argentine armed forces contracted for slightly more than \$3 billion in arms. []

The Military and Alfonsin

Raul Alfonsin captured the presidency last October largely because of his antimilitary campaign platform. Although reaffirming his commitment to a strong defense establishment during the campaign, he called for an end to the political role of the military

and vowed to slash defense spending to provide more funds for social programs and public works. Alfonsin argued that savings could be achieved without diminishing capabilities by improving interservice cooperation, ending redundancy in purchasing, and reducing manpower levels. He also hinted [] that reducing tensions with Chile over the Beagle Channel and with the United Kingdom over the Falklands would diminish the need for additional arms purchases. []

The new President moved quickly in the weeks following his inauguration to subordinate the military to civilian authority. He decreed changes in the high-command structure that placed the three service chiefs under the civilian defense minister and created a joint-chiefs system to centralize control. Moreover, he moved the intelligence and internal security services and many of the military-owned industries under civilian control. []

Shifting Policy on Military Spending

Despite his campaign promises to cut deeply into defense spending this year, Alfonsin was reluctant to make massive reductions during the first few months of his administration. Evidence suggests he realized that military leaders, though weak and divided, posed the most serious long-term threat to his government. []

Moreover, Argentine officials told US Embassy personnel that they saw little room for significant savings, given the large portion of the military budget that went for fixed items—personnel costs and the completion of outstanding contracts. Other evidence indicates that the administration lacked the expertise and staff to dissect defense-related expenditures. Some \$3 billion in foreign debt incurred by the military, for example, went undiscovered until late February. []

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**Argentina: Selected Deliveries of or Contracts Signed
for Major Equipment, 1978-83**

	Quantity	Approximate Value (million US \$)		Quantity	Approximate Value (million US \$)
France		587.2	United Kingdom		187.0
Exocet missiles	13	7.0	Type-42 destroyers ^a	2	70.0
Mirage III fighters	6	70.0	Blowpipe SAMs	Unknown	4.0
Antisubmarine warfare frigates	3	120.0	Unspecified equipment	Unknown	107.0
Panhard armored vehicles	127	112.0	Lynx helicopters	2	6.0
Super Etendard naval jets	14	160.0	Austria		58.0
Roland I SAMs	12	50.0	PJK self-propelled antitank guns	58	58.0
Exocet missile system	Unknown	8.2	PJK self-propelled antitank guns (including ammunition)	57	Unknown
Crotale SAM unit	1	10.0	Israel		270.3
Mirage V fighters	14	50.0	Patrol boats	7	5.3
Italy		115.9	Mirage V fighters (with air-to- surface missiles)	37	265.0
Mamba antitank missiles	500	0.5	Peru		50.0
105-mm towed howitzers	10	1.2	Mirage V fighters	10	50.0
A-109 helicopter gunships	9	30.0	Brazil		75.0
105-mm howitzers	Unknown	1.2	Xavante jets	19	75.0
MB-339 jet aircraft	10	30.0	Netherlands		6.6
Albatross missile system (with Aspide missiles)	4	3.0	Flycatcher antiaircraft defense system	4	6.6
35-mm antiaircraft guns (with associated fire-control radars)	18	50.0	Switzerland		Unknown
West Germany		1,872.2	Skyguard air defense system	1	Unknown
Submarines	6	464.0	Skybat air defense system	6	Unknown
MEKO destroyers/escorts	10	1,286.0			
Cobra antitank missiles	780	1.0			
Patrol boats	20	110.0			
20-mm antiaircraft artillery guns	40	11.2			

^a Ordered in 1970, delivered in 1981.

As a result, Alfonsin decided to implement cuts gradually—relying on attrition, for example, to reduce manpower costs. The Defense Minister in February openly admitted that attacking the military budget was akin to moving a mountain and controlling the process would take years.

By April, however, it had become apparent that Alfonsin's efforts to curb soaring inflation were not succeeding. Crucial negotiations with the IMF were stalled on, among other issues, the size of the public

deficit. Alfonsin, loath to make politically sensitive cuts in social spending, reexamined the military budget and decided to proceed with much larger reductions to reduce the deficit. The decision reportedly followed intense debates within the government between the Defense Minister, who was intent on assuaging officers' concerns about Alfonsin's attitude

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toward the military, and the Minister of Economy, who was equally intent on using the cuts as a central part of his formula for meeting Western bankers' lending criteria without reducing social expenditures or slowing economic reactivation. Ultimately, Alfonsin opted for reduction of about 40 percent in military expenditures below 1983 levels. []

The Military's Response

The budget cuts have aggravated traditional rivalries between the services as competition for scarce funds has intensified. In March, for example, a senior Air Force officer was retired and then arrested for criticizing the new command structure, which he claimed gave the Army and Navy too much of the budget. More recently, the Navy and Air Force have been squabbling over control of a squadron of A-4 fighter aircraft purchased from the Israelis but not yet delivered because of US arms sales restrictions. []

Moreover, the cutbacks have driven sizable segments of the officer corps firmly into the antigovernment camp. []

[] mounting concerns among officers over a range of government policies. In early September []

[] nearly 100 active duty and retired officers from all three services had set aside their differences to form a grouping to discuss the internal situation, including the impact of the economic crisis on the military. Noncommissioned officers, severely affected by the cuts, have organized on several military bases. They have carried out printed propaganda campaigns against government and have criticized their officers for not presenting their case more forcefully to the administration. []

[] Alfonsin is keenly aware of the economic difficulties facing the services and has tried to assuage their concerns. He has, for example, assured officers that the military is not being singled out for cutbacks and that funds will be restored as the overall economic situation improves. To demonstrate good will he has granted special wage increases to officers, especially in the lower ranks. Further, according to press reports, he has agreed to continue funding the Air Force's costly advanced

missile research program, and he has allowed the military to maintain direct control over a number of key defense industries. Indeed, a variety of evidence suggests that he is encouraging arms exports from these plants to reduce their drain on the treasury. []

Impact on Capabilities

The reductions have seriously affected morale and manpower levels. []

[] steadily eroding morale in all the services and consequent increases in discipline problems, including absenteeism and poor performance. By June, largely as a result of the services' growing economic difficulties, nearly 10 percent of the Army's NCOs had requested retirement. The Navy was losing petty officers and technicians at a similar rate. Many officers have been compelled to take extended leave to reduce operating expenses, resulting in what one senior commander called a "nine-month military." Applicants for the Argentine Air Force and Naval academies have significantly slackened. Conscription has been sharply reduced, with draftees, who have accounted for nearly 50 percent of the Navy's and 80 percent of the Army's manpower, serving only abbreviated portions of their normal one-year requirement. []

Training has also been affected. []

[] that schedules have been cut back and that a shortage of basic equipment, including uniforms, has further slowed training. In the Navy, fuel shortages have arisen, forcing reductions in time at sea, and naval pilots are having difficulty maintaining proficiency. Many of those who have left the Navy were instructors, thus slowing the integration of new manpower. Most recently, the Argentines almost had to postpone naval joint maneuvers with Brazil because of shortages of funds. Air Force pilots and trainees face similar difficulties. []

There are mounting indications that the funding cutbacks are taking their toll on operational capabilities. [] that shortages of

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Making Improvements Since the Falklands

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The three services have tried to learn from the 1982 Falklands defeat. The Navy, shocked by the sinking of the cruiser Belgrano and its inability to counter the British exclusion zone around the islands, has worked the hardest to improve capabilities. The addition of eight previously ordered ships will enhance antisubmarine warfare capabilities, and delivery of the last of the Super Etendards will improve the Argentines' ability to challenge war vessels. Other Navy measures include: expanding air refueling capabilities, reconfiguring commercial aircraft for maritime patrol missions, and more frequent and realistic exercises to enhance operational readiness.

inventories, including expanding air refueling capabilities, enhancing onboard avionics, improving weaponry, and giving pilots more realistic training.

Although the Army's Falklands war performance was the worst of the three services, commanders have been embroiled in the transition to civilian rule and have taken only tentative steps to address shortcomings. An enhanced air defense capability has been identified as a major need and has been partially fulfilled with the purchase of several Skyguard and Skybat fire-control units and French-made Roland antiaircraft missiles.

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Air Force commanders have made no major aircraft purchases other than the \$110 million worth of Mirages acquired from the Israelis and Peruvians in 1982. Last year the Air Force publicly announced it would not buy any advanced fighter aircraft, ostensibly because of the national financial crisis. Nevertheless, they have requested A-4 fighter aircraft from the United States—now that the arms embargo has been lifted—to replace those lost during the fighting. Like their naval counterparts, commanders have focused on upgrading the capabilities of aircraft already in

The inability to obtain needed armaments during and after the war reinforced the military's determination to produce domestically some essential equipment. Senior officers hope to improve in-country manufacturing capabilities and to move forward with current and new coproduction and development agreements with West European firms. The military believes enhanced manufacturing capabilities are critical to increasing export sales that would help offset capital investment, research, and development costs.

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technicians, and spare parts have considerably reduced the readiness of Air Force and Navy combat aircraft. The Air Force is unable to purchase more advanced fighter aircraft to replace its rapidly aging inventory. For its part, the Navy has sharply reduced flight time in its Super Etendard strike aircraft because of the cost—\$40,000 per hour—of operating them. The Navy reportedly is also considering selling most of its new surface combatants and submarines because it cannot provide adequately trained crews or afford maintenance. All three services, while continuing their post-Falklands equipment upgrading, have been forced to stretch out the programs, and there have been reports of difficulties in meeting deadlines for payments to suppliers.

Outlook

We expect the new economic realities to continue to cause near-term difficulties for the services. As the impact of funding cutbacks spreads, interservice rivalries are likely to continue and may intensify, diminishing prospects for implementing more cost-effective administrative and procurement practices. Maintaining manpower levels is also likely to be difficult as ongoing cutbacks in funds discourage enlistments and prompt more key personnel to retire. Foreign exchange restrictions will continue to complicate purchases of spare parts, reducing maintenance operational capabilities.

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There are some signs of efforts by military leaders to adjust to the cutbacks. Many recently appointed senior commanders are sympathetic to Argentina's financial plight and appear willing to make sacrifices. Moreover, most commanders agree that considerable room exists for eliminating waste. []

[] the services are making cuts in nonessential areas to devote more funds to maintaining capabilities. As a result, key programs to upgrade equipment started after the Falklands war are likely to continue. [] the Army, at least, is assuming that similar budget constraints will persist next year, and commanders are planning accordingly. Further, the government's arms exports drive could help compensate for planned cutbacks.

[]

We do not believe that budget cuts alone will prompt a coup. Nevertheless, they will continue to serve as a useful rallying point for military opponents of Alfonsin. The greater threat to the Alfonsin government by the military, both this year and over the longer term, in our view would be a further sharp decline in the domestic economy that sparked widespread labor unrest and rekindled terrorism. Alfonsin has committed himself to preventing a revival of mass worker unrest and insurgency. Should the military believe him incapable of maintaining order, officers could begin to reassert themselves to force the President to quell the unrest or face removal from office. []

Should Alfonsin be overthrown as a result of the economic crisis, we believe a successor military government will be far more nationalistic. Such a government—whether of the right or left—is likely to blame the United States and other Western countries for failing to provide Argentina with sufficient support and will be difficult to deal with on bilateral issues.

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Implications for the United States

Argentina's current economic difficulties will have little impact on potential arms transfers from the United States. Buenos Aires had been unable to make purchases from the late 1970s until late last year because of restrictions imposed for human rights violations. Certification on human rights last December did not significantly change our military relationship with Buenos Aires. US support for the United Kingdom during the Falklands war only reinforced Argentine beliefs that Washington could not be counted on to fulfill arms contracts. Instead, the military found what it believes are more reliable suppliers in France, West Germany, Italy, and Israel.

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Egypt's Military: Impact of Economic Difficulties

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Egypt's tight foreign financial situation has led to a guns-versus-butter debate within the Cabinet, and President Mubarak already has requested bilateral debt relief on military loans from the United States. Foreign payments difficulties and a debt crisis could threaten Egypt's longer term military modernization program and restrict benefits for armed forces personnel. Should Egypt ultimately be forced to take austerity measures—perhaps under IMF auspices and as part of a debt rescheduling exercise—the government would risk urban unrest that might test the military's loyalty to Mubarak. Cairo is trying to avoid these difficulties by deferring hard decisions, but its options are becoming increasingly limited.

The Military's Role

The Egyptian military remains the most important political force in Egypt. Its direct involvement in decisionmaking, however, has declined since the late 1960s, when military officers constituted over half the Cabinet. Now the officer corps exerts influence mainly as a powerful silent partner whose opinion limits the extent to which any President can redirect Egyptian policy. Mubarak—an Air Force officer before becoming Sadat's Vice President—seems inclined to follow the policies that have the broadest support within the military: a nonradical approach to domestic problems, a generally pro-Western albeit still non-aligned foreign policy, and adherence to the Egyptian-Israeli peace treaty.

Peace with Israel and an emphasis on economic development have altered the status and objectives of the armed forces. We believe the military's present goals include:

- Replacing worn-out and obsolete Soviet equipment with new Western weapons.
- Restructuring the armed forces into smaller, more mobile units.

Importance of the Military

- *The military is the ultimate guarantor of political order and the source of most of the country's top leadership. The military also backs up the police and Ministry of Interior forces in the event of serious domestic unrest.*
- *By Middle Eastern standards, the Egyptian officer corps is a stable and professional force. Its middle-class composition contributes to this stability by imparting a degree of uniformity to its social, economic, and political goals.*
- *The military is the most disciplined institution in Egypt and has a strong sense of corporate identity.*

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- Restoring the prestige enjoyed by the armed forces following the 1973 war. Many Egyptians now question the need for a large army in the absence of a direct military threat from Israel.
 - Regaining economic and social status for military personnel. Under Sadat's "Open Door" economic policies, goods available for top military officers and only a few others in society—good housing, cars, and television sets—are now more widely available.

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The Military and the Economy

The Military Budget. Official budget data for Egyptian FY 1983-84 (July-June) show military expenditures of \$2.5 billion—about 13 percent of government expenditures and nearly 9 percent of GDP. These percentages are well below the peak in 1972, when military spending was 33 percent of government outlays and 15 percent of GDP. As in most Third

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World countries, however, military spending data are incomplete. The available data are not broken down into specific categories, and they appear to omit purchases of foreign equipment. [redacted]

Cairo's attention in recent years has swung away from the military toward domestic economic concerns. The military's share of the budget has been shrinking because of the importance placed on public-sector investment and provision of consumer subsidies. Nonetheless, the government's budgetary decisions have not affected imports of weapons, and the military appears to have considerable freedom to set its own spending levels. [redacted]

[redacted] a select group of Cabinet members each year "examines" the military budget; by implication, these ministers have little power to influence military spending directly. [redacted]

Foreign Military Purchases. The Egyptian armed forces have depended on foreign credits or grants to finance major arms purchases. In the 1960s and early 1970s, the USSR provided about \$4 billion in low-interest loans for weapons purchases. As relations with the Soviets deteriorated, Egypt began to receive assistance from oil-rich Arab states to fund procurement of weapons from Western countries. Starting in 1979, the United States provided long-term credits or grants under the FMS program. Most purchases from other Western countries, particularly France, appear to be financed by medium-term credits. [redacted]

Defense Industries and Sales. Military factories produce small arms, ammunition, spare parts, vehicles, and other equipment for the Egyptian armed forces and for export. The factories receive operating subsidies from the government. Cairo is pursuing coproduction arrangements with foreign firms to produce fighter aircraft and tanks, but the lack of funding is a major problem. [redacted]

Civilian Projects. Since the mid-1970s, the Egyptian military has become involved in a wide range of economic endeavors in an effort to increase its self-sufficiency and to justify its continued large size during peacetime. In 1979 the Ministry of Defense created the National Service Projects Organization (NASPO) to organize, administer, and implement these civilian projects. Official Egyptian reports and press accounts claim, for example, that NASPO has done significant work on sewer lines and the telephone system. The military reportedly now supplies 65 percent of its own food, prints school textbooks, treats civilians at military hospitals, operates a pharmaceutical factory, and is building apartments for military personnel. President Mubarak's frequent visits to projects have assured wide publicity. [redacted]

Although military conscripts and noncareer officers appreciate the opportunities to gain skills and earn pay bonuses, senior officers believe that military participation in agriculture and construction lessens the prestige of the armed forces, lowers the morale of professional soldiers, and diverts attention from the primary mission of defense. These activities probably will retain popular support, however, as long as they remain free of corruption, are perceived as benefiting the public, and continue to be viewed as more efficient than the public sector. [redacted]

Morale

The government has tried to use enhanced perquisites to maintain military morale in the face of reduced peacetime promotion prospects, the scarcity of housing, the failure of pay to keep pace with inflation, and the decline in the economic status of the military

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Egypt: Current Account Balance ^a *Billion US \$*

	1982	1983 ^b	1984 ^c
Current account balance	-2.4	-2.2	-2.5
Trade balance	-5.0	-5.5	-5.8
Exports, f.o.b.	3.6	3.5	3.6
Oil	2.3	2.2	2.3
Imports, c.i.f.	8.6	9.0	9.4
Net Services	2.6	3.2	3.2
Receipts	5.4	6.3	6.5
Remittances	2.1	2.8	3.0
Suez Canal	0.9	1.0	1.0
Tourism	0.6	0.7	0.7
Other	1.8	1.8	1.8
Payments	2.9	3.1	3.3
Unrequited transfers	NEGL	0.1	0.1

relative to other Egyptians. These perquisites include:

- New apartments for officers on favorable financial terms.
- A subsidized vehicle purchase program offering officers new Mazdas or Fiats with no downpayment, no import taxes, and 1-percent interest on loans.
- Half fare on commercial transportation, and a proposed shuttle bus system to provide military personnel free transportation throughout Cairo.

Despite these benefits, we believe most officers and enlisted men consider themselves undercompensated in comparison with their civilian colleagues. According to US Embassy reporting, the armed forces have had difficulty recruiting and retaining highly skilled personnel because much more money can be made in the private sector or abroad. Many servicemen have great difficulty supporting their families on military pay alone.

80 percent of Army officers with the rank of major or above pursue some form of outside commercial activity. Many enlisted men hold second jobs despite formal prohibitions against this practice, and absenteeism is a major problem. Many officers seek hardship or overseas postings to receive the associated bonuses.

Civilian resentment of military perquisites is growing.

the provision of automobiles and low-cost housing is particularly irritating.

some members of the People's Assembly would like to discontinue such perquisites, which they view as Defense Minister Abu Ghazala's way of enhancing his popularity in the military at public expense. We believe, nonetheless, that the government will try to maintain, and perhaps expand, the special benefits as long as economic circumstances permit.

Economic Prospects

Egypt's foreign finances are tight. Official nongold reserves of about \$800 million would cover barely one month of imports, but Cairo so far has been able to avoid debt rescheduling and recourse to the IMF. The government has limited imports, adjusted exchange rates to attract more worker remittances, and increased both oil production and the volume of oil exports to offset the impact of lower prices. Moreover, Egypt has benefited from lower import prices, particularly for food, and from US economic and military aid. We project Egypt's current account deficit in 1984 will be about \$2.5 billion—close to the level of the past two years.

With limited foreign exchange reserves and a debt service ratio already exceeding 30 percent of foreign earnings, Cairo will have difficulty putting off an economic adjustment program much longer. Imports, particularly of food, will continue to rise, while slower growth is expected in earnings from remittances, the Suez Canal, and tourism. An adjustment program

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Secret**Egypt: US Foreign Military
Sales Financing***Million US \$*

Fiscal Year	Loans	Grants
Total	4,575	2,225
1979-81	1,500	0
1981 supplement	550	0
1982	700	200
1983	900	425
1984	925	425
1985 proposed	0	1,175

would entail reductions in government spending and probable hikes in prices of subsidized energy and food. The Mubarak government fears—with good reason—that these steps would produce negative political repercussions; memories remain fresh of the 1977 riots in Cairo sparked by bread price hikes.

An end to the Iran-Iraq war probably would hurt Cairo's immediate economic interests. Cairo could lose profitable arms sales to Iraq. Moreover, peace between Iran and Iraq would enable these countries to boost oil exports, further depressing world oil prices. Conversely, Egypt would benefit from sharply higher oil prices should the fighting spread and reduce oil exports from the Persian Gulf.

Domestic Implications

We believe economic problems will make it increasingly difficult for Cairo to simultaneously modernize the military, maintain benefits for military personnel,

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pursue an ambitious economic development plan, and retain generous consumer subsidies. There is already an intense debate on military versus economic priorities within the Cabinet between Prime Minister Muhi al-Din and Defense Minister Abu Ghazala. Mubarak's sympathies probably lie with the military, but we believe he will expect the military to accept spending cutbacks more readily than urban consumers. Mubarak tends to rely on Muhi al-Din on economic issues, and the Prime Minister's opposition to rapid and extensive economic reforms reinforces the natural caution of Mubarak, who has no chief economic adviser and who approaches economic decisions principally in terms of the short-term political risks involved. Moreover, civilian economic austerity measures would risk disturbances that the military might be reluctant to quell and could test the military's loyalty to Mubarak. []

power. []

Mubarak and the Egyptian leadership have a considerable stake in keeping the guns-versus-butter debate confined within the government. Egypt is expanding political participation—parliamentary elections are scheduled for next month—and opposition politicians will exploit any opportunities to cite economic mismanagement. A public debate could raise disturbing questions over the military's role in the economy and politics. []

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Implications for the United States

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Should economic difficulties generate discontent within the military or the general population, we believe Mubarak will have even greater incentive to resist Washington's recommendations on economic reforms. In such circumstances, strong pressure for reform is apt to be counterproductive; Mubarak will seek to avoid charges that he is subservient to a foreign

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Brazil

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Brazil's Armed Forces: The Impact of Austerity

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Brazil's four-year recession has taken its toll on the military. Budget cuts and reduced foreign exchange allocations have meant:

- Dwindling stocks of fuel and ammunition.
- Inadequate training.
- Reduced equipment purchases, especially from foreign sources.

As a result, combat readiness has deteriorated, and Brazil's armed forces have had to emphasize improvements—such as the expansion of troop strength—that do not involve significant hard currency costs. In addition, Brazil's need to boost exports has caused local defense industries to look to foreign markets, particularly in the Middle East. As military industrial cooperation with the United States increases, the secrecy, export orientation, and clientele of the Brazilian arms industry could pose technology transfer problems for the United States.

Despite extensive frontiers and a continuing rivalry with Argentina for regional dominance, Brazil has not had a border conflict in more than 80 years, and its military planners regard the threat of external attack as remote. Instability in neighboring Suriname, however, has motivated the armed forces to take an uncharacteristically visible role in promoting military cooperation as a means of displacing Cuban influence.

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Brazil is set apart from its Latin American neighbors not only by a different language, culture, and history, but also by the ambition to become a world power in the 21st century. This aspiration influences the country's approach to force modernization. Unlike the other regional military powers—Argentina and Peru—which have sought to increase their military strength by importing advanced weapons, Brazil has emphasized investment in defense industries and acquisition of modern technology. Although, as a short-term cost of this policy, Brazil has fewer advanced weapons—such as supersonic fighter aircraft—than its neighbors, the military prefers to build a substantial arms capacity.

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Economic troubles have strengthened the armed forces' commitment to return power to civilians by 1985. The military hopes to avoid further damage to its prestige by ceding responsibility for resolving the country's economic woes. In addition, the armed forces leadership seems eager to concentrate on professional matters and leave government to civilian politicians.

Economic and Political Dynamics

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The Military's Mission

Historically, the Brazilian armed forces have served as the guarantor of internal security and the arbiter of politics. External security has received less emphasis because of the country's relatively safe geographic position. Although it shares borders with every nation in South America except Ecuador and Chile, Brazil is largely protected on its frontiers by jungles, mountains, and swamps. The few modern roads near the borders usually are on the Brazilian side. Only the southern borders with Uruguay, Argentina, and Paraguay provide relatively suitable terrain for military operations, and it is here that Brazil's strongest forces are concentrated.

After presiding over more than a decade of extraordinary economic growth (1968-79), the Brazilian armed forces are preparing to leave government with the country's most severe economic crisis unresolved. Since 1980, recession and inflation have reversed Brazil's historic rapid rise in living standards. Last year, prices tripled, GDP fell 5 percent, and industrial output dropped 8 percent. Private business failures have accelerated, and Brazil's middle and lower classes have been hard hit by high unemployment and real wage declines. An austerity program to stabilize prices and reduce foreign indebtedness has put a premium on production for export while requiring sharp cuts in imports and government spending.

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Although a minority of military officers caution against returning to civilian rule while the economic crisis persists, the US Embassy reports that most continue to favor a return to the barracks. The prevailing view within the military holds that the armed forces can only further lose prestige the longer they run the government. []

Impact of Austerity on the Military

The 20-year period of military rule did not greatly benefit the armed forces professionally. In terms of equipment, they were relatively better off in 1964 than they are today. Even during the boom years of the "Brazilian miracle," military regimes interpreted national security more in terms of promoting economic growth and internal order than in terms of acquiring the latest military hardware or modernizing the armed forces. The Anglo-Argentine conflict over the Falklands in 1982 alerted the Brazilian military to the inadequacy of its materiel, doctrine, and training, but severe foreign exchange shortages have hindered any modernization plans requiring significant hard currency []

Manpower

Although large by regional standards, the Brazilian armed forces are moderate in size, considering the country's population and size. A military force of 280,000 for a country of some 134 million represents some two-tenths of 1 percent of the population, a significantly smaller share than in either Argentina (0.5 percent) or Peru (0.7 percent). Moreover, despite rapid population growth, Brazil's armed forces have not expanded in the last 10 years. Plans to boost Army strength from 183,000 to 296,000 by 1993, for example, have been deferred for at least two years because of funding constraints. []

Even when the Army's proposed troop increase begins in 1986, it will be undercut by continuing financial stringency. With 1984 inflation projected to be about 200 percent, the recently announced doubling of the Army's annual budget will mean a decline in the Army's real purchasing power. []

Training

[] that the lack of funds is resulting in inadequate basic and weapons training, serious restrictions on field exercises, and improper equipment maintenance. []

[] reductions in rifle training ammunition and war stocks. Likewise, training for tank and truck drivers and artillerymen is hampered by fuel constraints and severe shortages of artillery shells. Attache reports indicate that proficiency in crew-served weapons in one airborne infantry battalion is now so severely limited by ammunition shortages that the unit may soon revert to a battalion of riflemen with no sustained combat capability. Although Brazilian unit commanders have learned to cope with minimal budgets—using such practices as sending troops home early to save food, selling food to buy gasoline, and parking vehicles for half the year to save fuel for maneuvers—the situation is serious enough to strain even the Brazilians' talents for improvisation. []

Training on advanced weapons has been particularly affected. The Air Force reportedly has never fired either of its two types of air-to-air missiles. The few test firings of the Navy's Exocet antiship missiles have revealed serious training deficiencies, which cannot be remedied soon because funds are not available. []

Weapons Purchases

Austerity has meant a reduction in foreign weapons acquisitions. Only two classes have been exempted:

- Those that have no domestically produced counterpart, such as submarines, torpedoes, A-4 carrier-based aircraft, helicopters, and air-to-surface missiles.
- Those that are cheaper to buy abroad than to produce domestically, such as used 105-mm and 155-mm howitzers. []

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**Brazil's Projected Domestic
Military Production (Major Systems),
1986-90****Army**

EET-1 Osorio 35-ton tanks 50

Air Force

AM-X subsonic ground attack fighters 48

T-27 Tucano turboprop trainers 100

Brasilia medium transport aircraft 25

Navy

Corvettes 4

Even in these cases, the decision to buy depends largely on the vendor's willingness to transfer technology—a requirement that Brazil attaches to most foreign defense acquisitions. The Navy purchase of a submarine from a West German firm, for example, required that the firm help assemble a second submarine in Brazil. Selection of an antiship missile for Brazil's domestically produced frigates also depended on an agreement to transfer technology. []

Defense Industries

Brazil plans to rely on its expanding defense industries for most of its needs. According to US Embassy reporting, the Army will buy small arms and ammunition, armored personnel carriers, and at least 50 newly designed 35-ton tanks from domestic producers in the next few years. Brazil's aviation industry will supply the Air Force with 168 new Tucano light trainers, about 80 AM-X subsonic ground attack fighters, and at least 25 medium transports over the next decade, according to press [] Navy plans are less certain because of inadequate funding; the projected run of 12 Niteroi frigates appears to have been halted at seven, including one training ship, and plans for 12 corvettes appear to have been cut back. []

Brazil's emphasis on developing its own defense industries instead of buying weapons abroad has some drawbacks. The Air Force, for example, has been

**Brazil's Projected Foreign Military
Acquisitions, 1986-90****Army**

Sikorsky S-70 medium helicopters 12 to 90

105-mm howitzers (used) 48

155-mm howitzers (used) 16

Navy

A-4E carrier-based fighters 10

T-A4 jet trainers 2

ASW helicopters 28

Maverick AGM 65 air-to-ground missiles 40

Submarines 2

Torpedoes 40

unable to modernize its Mirage III and F-5 interceptors. Despite having the largest Air Force in Latin America, Brazil is behind Argentina and Peru in advanced fighter aircraft. The domestically produced AM-X fighter, scheduled to enter Brazil's inventory in the mid-1980s, is designed as a subsonic ground attack fighter and thus will do little to improve the Air Force's declining interceptor capability. Nevertheless, Brazil's focus on defense industries has enhanced its independence from foreign suppliers and expanded the range of Brazilian exports, earning vital foreign exchange. []

Outlook

Brazil's economic difficulties will hinder the armed forces from undertaking any thorough modernization over the near term. Nonetheless, they will be able to replace some outdated equipment, and they probably will push for a greater share of the budget once out of office. A civilian president might support a higher military budget, according to the US Embassy, both to accommodate the military's legitimate need to upgrade its forces and to keep the high command content and on the political sidelines. []

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Keeping the military focused on professional pursuits and modernization, however, will require political stability. If social tensions generate widespread unrest, the military could be drawn back into the political process. [redacted]

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Implications for the United States

Brazil's economic crisis and the armed forces' post-Falklands emphasis on professionalism have contributed to a gradual improvement in bilateral military relations. The US-Brazilian memorandum of agreement on military-industrial cooperation, signed following President Reagan's visit in December 1982, reflects the Brazilians' goal of acquiring US weapons technology and improving professional training and doctrine. [redacted]

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A minority within the military advocates a more nationalistic economic policy, a confrontational attitude toward multinational firms, and repudiation of the country's debt, according to the Embassy. These views are voiced primarily by retirees, however, and carry little weight with active-duty officers. [redacted]
[redacted] at the middle-grade level, older officers tend to be well disposed to the United States, while their younger colleagues are generally neutral. [redacted]

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Peru

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Peru's Military: Impact of the Economic Crisis

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Peru's civilian government is struggling to impose fiscal discipline without antagonizing a politically powerful military establishment unaccustomed to limits on arms expenditures. Military leaders have already seen spending guidelines delay some arms purchases, limit the expansion of counterinsurgency capabilities, and slow the development of domestic arms industries. We believe the military eventually could fear that its ability to suppress domestic insurgents and maintain its superiority over armed forces in Chile and Ecuador is being jeopardized. This year the government already has yielded to military pressure and violated IMF budget guidelines by authorizing a major purchase of fighter aircraft from France. Nevertheless, concerns by the armed forces over President Belaunde's declining popularity, recent leftist electoral gains, increasing strikes and civil disorder, and perceived restrictions on military autonomy in counterinsurgency operations remain a constant threat to Peru's fragile, democratic experiment.

The Military's Role

The armed forces are primarily responsible for defense against external attack. Strategic planning has long been based on a perceived need to field forces capable of fighting simultaneously against Chile and Ecuador, countries with which Peru has continuing border disputes. Periodic clashes with Ecuador's border forces and Peru's enduring irredentist designs on northern Chile have kept defense high among national budgetary priorities. Heavy spending by both military and civilian governments over the past 15 years has enabled Peru to emerge as the predominant Andean military power. We estimate that between 1971 and 1980 Peruvian military purchases totaled \$2.2 billion. With over \$1 billion of this going for Soviet arms, the USSR emerged as Lima's largest supplier in the period. The size of the armed forces has increased as well. Since 1973 the Army's strength has almost doubled to 75,000, while the Air Force has grown from about 7,000 to 40,000.

The military assists the underequipped and poorly trained police in maintaining internal security, and the level of its involvement increases with the seriousness of the threat. The armed forces played a major role in defeating an insurgency in the 1960s, and since late 1982 they have become heavily involved in the struggle against the Sendero Luminoso (Shining Path, or SL)—a rural Maoist insurgent group of approximately 1,500 armed members. At present about 2,500 Army, Marine, and Air Force troops are deployed against the SL in the 12 south-central Andean provinces that constitute the government's original Zone of Emergency. In addition, another 1,500-man force recently was deployed in a new Emergency Zone in north-central Peru. This threat also has forced the military to boost purchases of equipment more suitable for counterinsurgency operations.

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By tradition, the military has been the dominant voice in determining who governs Peru, intervening against civilian regimes it considered inept, ideologically suspect, or threatening to its institutional interests. Since World War II, the military has assumed power four times and ruled for a total of 22 years, most recently from 1968-80. During the early phase of this 12-year stint in power, the armed forces were dominated by a leftist high command, which implemented a "progressive" style of military government unique in Latin America. The regime nationalized foreign oil companies, fostered extensive state intervention in the economy, implemented social reforms, and pursued a non-aligned foreign policy. By the late 1970s, the military returned to the more moderate, and even conservative, views that still predominate and in 1980 restored full civilian democratic rule.

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The Economic and Political Backdrop

Given the military's record of direct intervention in politics, the government of President Belaunde has allocated substantial resources for weapons purchases,

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salaries, and other military needs. In December 1983, the US Embassy estimated that military expenditures had claimed almost 25 percent of the government's 1983 budget, and that defense outlays as a percentage of GNP had risen from 3.4 percent in 1979 to 5.1 percent in 1983. [] however, states that the 1983 military budget—excluding new equipment purchases—accounted for 7.3 percent of GNP. []

Major weapons purchases approved since the return of civilian rule in 1981 include a contract in 1981 for 14 Soviet-made MI-24/25 attack helicopters worth \$91 million and a contract in 1982 for 26 Mirage 2000 fighters valued at \$700-800 million. To our knowledge, the civilian leadership has never turned down any major purchase insisted upon by the armed forces. []

The troubled economy and the persistent insurgency remain the government's two major problems. The unprecedented 12-percent decline in real GDP last year—the result of natural disasters, weak foreign demand for exports, and policy errors—has eroded the popularity of the Belaunde administration and aroused military doubts about the President's leadership. The government, which must grapple with a \$12 billion foreign debt and 130 percent inflation, faces poor economic growth prospects again in 1984. Popular dissatisfaction over the downturn and the government's imposition of IMF austerity measures led to opposition gains in municipal elections last November—including an impressive showing by the Marxist United Left coalition. []

In February, Peru negotiated rescheduling agreements with its private creditors and signed a new letter of intent with the IMF for an 18-month standby agreement worth \$260 million. The US Embassy reports that, as a result of the IMF program, payments for military imports will be budgeted at \$200 million in 1984, down from an estimated \$350 million last year. []

The Sendero Luminoso's terrorist activities further contribute to friction between the military and the government because Belaunde is reluctant to grant the armed forces the autonomy they want in dealing with the problem. Guerrilla leaders reportedly believe that their military capabilities have not been damaged severely by internal security force successes, and the SL continues to launch tactical offensives. The Sendero's unpopular violent tactics, serious lack of arms, and the gradually improving capabilities of the security forces will hamper its development into a national movement. Nonetheless, the guerrillas will continue to challenge the government's presence in both Zones of Emergency and undertake periodic attacks in Lima. []

Impact on the Military

Over the past two years, the military has repeatedly warned the President against drastic cuts in the military budget. Military leaders have submitted extensive shopping lists that included not only the Mirage 2000 fighter but also armor and helicopters for the Army and modernization of the Navy's aging surface fleet. [] government disillusionment with the armed forces' seemingly insatiable requirements but also reveal that the government continued through 1983 to accede to its wishes. []

Despite government efforts to meet military demands on most major items, Peru's economic problems are affecting procurement, unit readiness, and counterinsurgency operations. Lack of funds already has led the Air Force to delay replacement of its aging Canberra bombers with the US A-10 or similar aircraft. Serious differences between Peru and France over the terms of the Mirage 2000 contract, however, have been ameliorated with the first deliveries scheduled for 1986. []

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Selected Recent Peruvian Arms Requirements and Orders

Service	Item	Source	Units	Approximate Cost (million US \$)	Status
Army	Medium-lift helicopter	United States	10-15	110	Contract for UH-60s still under negotiation.
	Heavy-lift helicopter	United States	3-6	60	Unclear; Peruvians have evaluated United States CH-47 Chinook.
	Medium tank	United States USSR	20-50	107.5	Peruvians interested in United States M60A3 tanks; more likely to buy less expensive Soviet vehicles.
	Armored personnel carriers	United States Brazil	230	70	Negotiations continuing.
	Spare parts for Soviet equipment	Unknown		50	Peru continues to search for alternative sources for Soviet spares.
	Observation helicopters	West Germany	10-15	Unknown	Negotiations for West German BO-105 light helicopters continuing; status unclear.
Air Force	Mirage 2000 Interceptor	France	26	More than 700	Contract signed 1982; Peruvian financial problems forced renegotiation of terms in 1984; first deliveries scheduled for 1986.
	Medium transport	United States USSR	2	35 (for US C-130)	Unclear.
	Bell 214ST helicopter	United States	6	32.5	Six in country; option to buy six more.
	Air defense radar	United States USSR	2	20	Unclear.
Navy	New naval base/air station/ shipyard	Undetermined	1	500-1,000	Approved by Peruvian Congress October 1983; Navy evaluating bids from firms, arranging financing.
	Upgrade of light cruiser	Netherlands	1	130	Contract signed with Dutch firm August 1983.
	Upgrade of destroyers	Possibly Netherlands	7	Unknown—but in excess of 200	No contracts signed yet.
	LST (used)	United States	4	3 per ship for reactivation and rearmament	Navy has only one operational LST; interested in leasing four from US Navy.

Funding restraints have hindered the military's ability to perform its internal security mission. The need for concessionary financing has delayed acquisition of counterinsurgency-related equipment, such as helicopters, night vision devices, and improved radios. In addition, a perception that the government has failed to allocate adequate funds for civic action and economic development—which many in the military believe is essential to winning the struggle against the guerrillas—not only has provoked numerous complaints from officers, but resulted in the administration's recent firing of the southern Emergency Zone commander for his public remarks on the subject.

Economic difficulties have also caused the armed forces to request salary increases from the administration. [redacted] Officer pay has not kept pace with triple-digit inflation. Many officers are forced to moonlight, and some apparently have become involved in drug trafficking. This is a major reason why the military favors only a limited stay for its troops currently stationed in the new Emergency Zone, which is in the cocaine-producing northeastern region of Peru. [redacted]

[redacted] nearby

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farms and sell produce to bolster the income of officers and enlisted men. Some units reportedly spend more time working on these farms than on military activities. []

Development of Peru's nascent arms industry and military training programs have suffered. An assembly plant for Italian-designed jet trainers scheduled to open last year remains uncompleted, and two frigates under construction since the late 1970s have yet to join the fleet; technical difficulties also have contributed to the delays. Information on training programs and exercises is limited, but the high cost of fuel, ammunition, and spare parts undoubtedly has hindered these activities. []

[] had refused to return five MB-339 trainer aircraft engines to Peru until the Air Force paid for repair work. As a result, the Air Force grounded several aircraft and cut its training program in half. []

Outlook

Peru's economic difficulties will continue to limit military readiness, training, and procurement—especially of the most advanced weapons—but not enough to cost Lima control of internal security or military predominance in the Andean region. Peru's principal rivals, Chile and Ecuador, face similar economic problems, as well as political uncertainties. The Peruvian armed forces' political clout will ensure access to sufficient financial resources to prevent a serious deterioration of military capabilities. Civilian governments of either the left or the right probably will allocate funds for at least one major purchase by each service every year—as well as provide for other needs such as higher salaries—or risk being removed from office. Indeed, pressure for military purchases already has caused Peru to violate IMF spending guidelines. []

The military leadership is not completely insensitive to Peru's economic problems and probably will agree to some reductions or delays in certain programs but not at the risk of losing superiority over Ecuador and Chile or reducing pressure on the Sendero Luminoso terrorists. To help resolve the dilemma, the military is prepared to consider unorthodox methods of financing

its purchases. []

[] for example, that the Army was planning to exchange Peruvian iron ore for \$16.2 million worth of Yugoslavian munitions. []

The emerging strain between military needs and economic reality could threaten civilian democratic rule. Despite their increasing frustration with what they perceive to be the government's ineptitude, military leaders probably will not attempt to depose President Belaunde. Nonetheless, the range of adverse trends—the administration's declining popularity, increasing strikes and civil disorder caused by the economic downturn, recent leftist electoral gains, and civil-military disagreements over counterinsurgency policy—is causing some officers to consider intervention. []

The armed forces' current dissatisfaction with Soviet logistic support, coupled with a desire to diversify their sources of military aid and thus avoid an overdependence on the USSR, will lead Peru to approach both the United States and Western Europe for new weapons. Nevertheless, we believe the military will turn again to the USSR—which historically has provided generous credit terms—if Western suppliers fail to offer adequate financing, refuse to accept barter proposals, or are unwilling to sell their most advanced equipment. Meanwhile, [] the USSR, determined to expand its influence with Peru's armed forces, agreed last year to refinance Lima's military debt and is increasing efforts to sell equipment and provide training for all three services. Moreover, should Peru's neighbors increase their arms purchases, this could further encourage Lima to turn to Moscow because of the Soviets' ability to deliver materiel rapidly. []

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Chile

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Chile's Military: Impact of the Economic Crisis

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Chile's domestic political crisis and the depressed economy are eclipsing the armed forces' traditional concerns about the military balance with rival forces of its neighbors, particularly Peru and Argentina. The armed forces, who prefer a purely military role, have been strained in recent years by their political role in supporting President Pinochet and the ruling military junta. The development of broad, active opposition to the regime has aggravated that strain, and the armed forces face critical choices in the coming months. In contrast with some Latin American democratic governments that feel compelled to placate politically powerful militaries, Pinochet has used his dual government/military leadership role to tightly control defense expenditures, in part to comply with guidelines on government spending under Chile's IMF economic adjustment program. Selected weapons purchases continue, but the determination to maintain fiscal discipline—combined with the continuing international arms embargo against Chile—will limit Santiago's ability to modernize its arsenal and we believe will degrade operational effectiveness.

The Military's Role

Defense of Chile's long, vulnerable frontier remains the military's preeminent responsibility. Chile's armed forces—victors in a series of wars in the 19th century and trained by successive European military missions—have a long tradition of professionalism and are perhaps the most competent in Latin America. Although they have not fought since crushing Peru and Bolivia in the War of the Pacific (1879-83), periodic border tensions between Chile and its neighbors—most recently in 1978 when Chile and Argentina almost clashed over the Beagle Channel—have encouraged high professional standards. Strategic planning still centers on a perceived need to field forces simultaneously against Peru, Argentina, and Bolivia. To this end, the armed forces are trained and equipped almost exclusively for conventional warfare.

During 1973-80, Chile contracted for over \$1 billion worth of arms and military services, including jet fighters, warships, armor, and air defense equipment. The size of the armed forces increased as well during this period, with the Army growing from 32,000 to 53,000. Despite this effort, Chile's military remains underequipped and heavily outnumbered by the combined forces of Peru, Argentina, and Bolivia. Peru and Argentina, Chile's principal rivals, each have spent more than Santiago, giving them a growing qualitative edge as well. The international arms embargo against the Pinochet regime for human rights violations—adhered to by the United States, which had been Chile's principal supplier—has denied the Chileans access to many modern weapons and occasionally forced Santiago to purchase less satisfactory equipment from sources such as Israel.

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The military is reluctant to assist the National Police (Carabineros) in maintaining internal security. Unlike most Latin American police forces, however, the Carabineros are relatively well trained and only rarely require direct military assistance. Moreover, the armed forces fear jeopardizing the respect of many middle-class Chileans and recognize their own lack of internal security training. In August 1983, for example, inexperienced troops reinforcing the hard-pressed police in Santiago fired on demonstrators and inflicted heavy civilian casualties. The military's major involvement in internal security matters is through the National Information Center—a military intelligence organization attached to the Interior Ministry that has acquired a brutal reputation—and through the occasional deployment of special forces troops against isolated terrorist elements.

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The Chilean military until recently had usually avoided direct involvement in domestic politics. The quality of civilian leadership has been generally high since independence was achieved in 1818, and the Armed

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Forces usually have stepped in only when they have completely lost confidence in the civilians' ability to maintain control. Even then it has occurred only after extensive debate within the military. The reluctance and indecision that beset the high command before overthrowing President Allende in 1973—the military's first direct intervention in over 40 years—are illustrative. A continuing lack of confidence in the competence and judgment of Chile's current political party leaders underlies the military's support for Pinochet's decision to delay the return to democratic rule until 1990. []

The Political and Economic Backdrop

The crippling recession that struck Chile in late 1981 prompted the first broad-based opposition to Pinochet in his 10-year rule. After a five-year boom, Chile's economy suffered a serious reversal in 1982 when GDP plummeted 14 percent, the unemployment rate nearly doubled to 25 percent, real wages dropped, and hundreds of businesses failed. The regime's reluctance to adjust its policies despite declining foreign demand and a liquidity crunch induced by the drying up of foreign credit gave impetus to the opposition movements. []

By mid-1983, opposition groups had drawn wide support from political and labor circles. These groups demanded an accelerated transition to civilian rule, and this gave the movement a political dynamic independent of economic grievances. Pinochet opened a dialogue with the opposition last August and granted a number of concessions that appeared to represent limited moves toward democratic government. The failure of the government to continue in this direction, however, has contributed to renewed protests this year. []

The military, as Pinochet's primary power base, holds the key role in the political crisis. Recognizing this, moderate opposition forces are attempting to persuade officers that the President would jeopardize the institutional interests of the armed forces to keep himself in power. Some officers, particularly in the Air Force and Navy, have expressed concern that Pinochet's unwillingness to speed up the political transition will

fuel domestic turmoil and aggravate political polarization, creating opportunities for the radical left. According to the US Embassy, the Army, the most important service, still stands behind Pinochet, but the high command is sensitive to military interests and almost certainly monitors events closely. []

Impact on the Military

The economic decline has had a serious impact on the military. Advised by his economic team to curtail sharply government expenditures, mindful of limits on military imports under Chile's IMF program, and probably hoping to show the public that the armed forces are not exempt from fiscal austerity, Pinochet has tightly controlled the military budget. As head of the junta and the military, Pinochet has accomplished this without provoking a backlash in the armed services. The US Embassy estimated last year that programed defense expenditures in 1983 equaled \$600 million, representing roughly the same percentage of the overall budget as the previous year. In addition to budgeted expenditures, the Chilean military receives by law 10 percent of the receipts from CODELCO, the government-owned copper company. The US Embassy estimated that this provided the armed forces an additional \$190 million in 1983, bringing total military appropriations to about \$800 million or about 5 to 6 percent of GNP. Preliminary figures published by the government in early 1984 suggest that defense will, at best, maintain its share of the budget this year. []

The government's tight rein on military expenditures over the past two years has prevented Chile from matching the military buildups of Peru and Argentina. We believe that this would have been the case, however, even if Santiago were not under an embargo by some major weapons suppliers. []

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Chile: Major Arms Orders

Service	Item	Source	Quantity	Approximate Cost (million US \$)	Status
Army	Armored vehicles	Domestic	200	Unknown	100 licensed-produced Swiss-Mowag vehicles reportedly in service.
	Air defense equipment	Unknown, possibly United Kingdom	Unknown	Unknown	Army has longstanding requirement for air defense equipment. May have evaluated UK Rapier system. No firm orders.
Navy	Guided-missile destroyer	United Kingdom	1	20	Second "County"-class DDG due in 1984.
	Type 209 submarine	West Germany	2	130	Ordered in 1980, both due in 1984.
	Landing ship	Domestic	1	10 (at least)	Chile plans to build a third French-designed "Batral"-class landing ship.
Air Force	Fighter-bombers	United Kingdom	14	70 to 100	Negotiations continuing for 14 Jaguar fighter-bombers. Contract expected in 1984. Will replace aging Hawker Hunters. Option to buy 26 more.
	Jet trainers/light attack aircraft	Spain-domestic assembly	At least 16	Unknown	12 Casa C-101 (T-36) now operational. Three more due by June 1984.
	Prop-driven trainer	Domestic assembly	Eventually up to 100	Unknown	At least eight to 10 T-35 Pillan trainers have been assembled. Progress delayed because of technical problems. DAO estimates Chileans can assemble 10 to 15 a year.

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Although Chile has purchased shoulder-launched surface-to-air missiles, Hawker-Hunter fighter bombers, Canberra reconnaissance aircraft, and electronic surveillance equipment from the United Kingdom, budgetary considerations apparently have kept Chile from buying other British equipment, such as the aircraft carrier Hermes and armored vehicles. Purchases from other major foreign military suppliers have been minimal.

Training likewise has suffered because of budget constraints

that the Navy had received authorization for only 30 days of at-sea operations per ship this year. Although high-priority training, such as an amphibious exercise later this year and the annual UNITAS regional naval maneuvers, will proceed as scheduled, the high cost of fuel and munitions will probably preclude other major exercises.

Military pay has been hit by the economic squeeze. Early last year, for example,

We believe, however, their circumstances would have to deteriorate considerably before the junior officers in this strictly hierarchical and disciplined military would confront the high command with their grievances.

The development of Chile's domestic arms industry, initially spurred by the arms embargo, has been boosted by Santiago's need to reduce foreign weapons purchases. Chile now produces a wide range of materiel, including grenades, mines, general purpose and

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cluster bombs, small arms and ammunition, several types of armored vehicles, antitank missiles, and light antiaircraft guns. Chile's factories have produced about 100 license-produced Swiss Mowag armored vehicles for the Army. [REDACTED]

and the domestically designed, T-35 Pillan prop—to replace aging US-built trainers. The Navy has recently completed construction of two French-designed landing ships. [REDACTED]

The government also hopes to export locally produced arms. Extensive coverage in trade journals, an aggressive export campaign by the primary private producer (Cardoen Industries), and displays at military exhibitions in the United States, the Middle East, and Southeast Asia appear to be achieving results. The [REDACTED]

[REDACTED] press releases by Cardoen indicate other countries in the Middle East and Latin America are also interested in these devices. [REDACTED]

Outlook

We believe Chile's economic difficulties will prohibit substantial modernization or expansion of its armed forces over at least the next two years. Unless faced with an unambiguous threat of war, the Pinochet government will continue to limit military spending. Continued cutbacks in training, however, risk the loss of Chile's qualitative advantage over its traditional military rivals. [REDACTED]

We believe the government will authorize some improvement in military pay and living conditions to minimize discontent within the officer corps. Despite a commitment to promote an arms industry, Chile will remain heavily dependent on foreign sources for its military needs, including imported parts for domestic arms plants. Thus, we expect the government to purchase weapons selectively from non-Communist countries, [REDACTED] which offer reasonably modern equipment at advantageous terms. [REDACTED]

The armed forces could assume a more active political role if civil unrest and terrorism escalates. Should this occur, members of the high command are likely to urge the President to adjust economic policies to speed recovery and to accelerate the transition to democratic rule. Although the armed forces' tradition of acting by consensus and their doubts about civilian political leadership mean that military pressures on Pinochet would build only gradually, we judge that serious discussion about replacing Pinochet could occur if the Army believes his leadership is harming both national security and the military's institutional interests. [REDACTED]

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Pakistan: The Economy and the Military

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Over the past few years, the Pakistani Government has provided enough guns and butter to satisfy the armed forces and the civilian populace. Financing today's prosperity and military goals, however, has come at the expense of investment. This will make Pakistan heavily dependent on foreign capital for economic development and military modernization.

The Military: Growing Economic Demands

The Pakistani Armed Forces traditionally have been the country's most prestigious institution and a unifying national force. Pakistani Army officers or former officers have ruled Pakistan since the first military coup in 1958 except for the years between 1971 and 1977 when Zulfikar Ali Bhutto was President and Prime Minister. The military role under the current martial law government extends to the local level. President Zia plans to establish a civilian government by March 1985; but almost all observers believe he intends to be elected President, and can engineer his election with little difficulty.

Zia's government is committing a larger share of its resources to defense. Its ongoing military modernization program could cost \$6.5 billion by the end of the decade and requires expensive imports. Pakistan manufactures ammunition and small arms but does not produce heavy military equipment.

Since the initiation of the military modernization program in 1981, government expenditures on the military have amounted to about 25 percent of the total government budget and 6 percent of GDP—modest increases over the late 1970s. Defense is allocated \$1.9 billion in the current public budget.

Military imports have become a larger share of total imports. Reporting from the US Embassy in Islamabad indicates that military items were about 11 percent of the total import bill last fiscal year.

Military spending has added to Pakistan's debt burden. Outstanding foreign debt is nearly \$17 billion, including about \$2 billion in foreign military debt. The military debt has grown rapidly since 1980 because of the modernization program. Debt service payments were about \$1 billion last year, equivalent to an estimated 15 percent of foreign earnings. This repayment burden currently is manageable.

Sources of Supply and Financing

Pakistan regards US weapons and financing as the key to its modernization program.

- fighter-bombers and the Navy 16 submarine-launched Harpoon antiship missiles.
- The Army has purchased 100 M-48 tanks, more than 100 major artillery pieces, and 10 helicopter gunships.

The Zia government views the US aid package as a test of US reliability. Pakistanis remember the US arms embargoes in 1965 and 1971 during Indo-Pakistani wars and in 1978 over the nuclear proliferation issue. many in Islamabad view European suppliers, and particularly France, as much more reliable because they are commercially rather than politically motivated.

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The Role and Status of the Armed Forces

Most Pakistanis consider the military to be the protector of the state from external aggression rather than as an internal police force. Support for the Armed Forces is particularly strong among the Punjabis (60 percent of the population) and the Pathans (20 percent of the population) who have traditionally followed military careers. The military chose to remove the civilian presidents in 1958 and 1977 rather than engage in a systematic campaign of repression against widespread demonstrations in the Punjab.

Support for the Armed Forces is not as strong among Sindhis (10 percent of the population) and the Baluchs (5 percent of the population). Neither of these ethnic groups are well represented in the Armed Forces. In the mid-1970s, the Army put down a major guerrilla movement in Baluchistan. In 1983 it helped suppress widespread civil unrest in Sind Province. The Army prefers, however, to avoid the role of an internal police force.

Morale in the Pakistani Armed Forces generally is good. Pakistani officers and enlisted men live better than their civilian counterparts. Housing, food, and education for children are either heavily subsidized or free. Military hospitals are among the best in the country, and medical care is free. Many enlisted men learn technical trades that can be used after retirement from the Armed Forces, and officers learn managerial skills. Charges of widespread corruption in the armed forces since 1977, however, have lowered the military's prestige with civilians and the officer corps' prestige with younger officers. The military's perception that martial law has lowered combat capabilities also has hurt its self-image.

We believe that the West European countries are the most likely alternative to the United States for modern arms and that Pakistan will attempt to meet some of its sophisticated weapons needs from them. Most of Pakistan's existing modern arms are from France, which will remain Islamabad's principal European supplier because of the broad range of high-quality

weapons it produces.

Financing, however, remains the principal obstacle to additional arms deals with the West European countries.

Over the past 25 years, China has supplied the Pakistani military with the bulk of its armaments. Although the level of Chinese assistance appears to have declined since the United States began selling Pakistan modern military equipment in 1981, we believe Islamabad will continue to buy substantial quantities of less sophisticated arms from China:

- China and Pakistan have similar foreign policy views on regional issues.
- China has been a reliable arms supplier in the past.
- The cost of Chinese equipment is considerably less than other sources.
- Pakistan has accumulated sizable inventories of Chinese equipment and will need to obtain spare parts.

Islamabad has been trying to line up an additional \$800 million to \$1.5 billion from the Arab states for military purchases since 1980. Thus far Saudi Arabia has committed \$500-600 million. Because of the slump in OPEC oil production, however, oil-rich Arab states are now facing their own financial constraints.

Domestic Support for Defense

The level of military spending is not an issue in domestic politics. The military has received strong support even during the mid-to-late 1970s when there was a civilian government and a slight thaw in relations with New Delhi. India's recent large weapons purchases from the Soviet Union and the Soviet invasion of Afghanistan have propelled Pakistan's ambitious modernization program. Islamabad believes it is vulnerable to political and military pressure by New Delhi and Moscow and fears that Indian and Soviet strategic objectives ultimately threaten Pakistan. The military believes that modern weapons are

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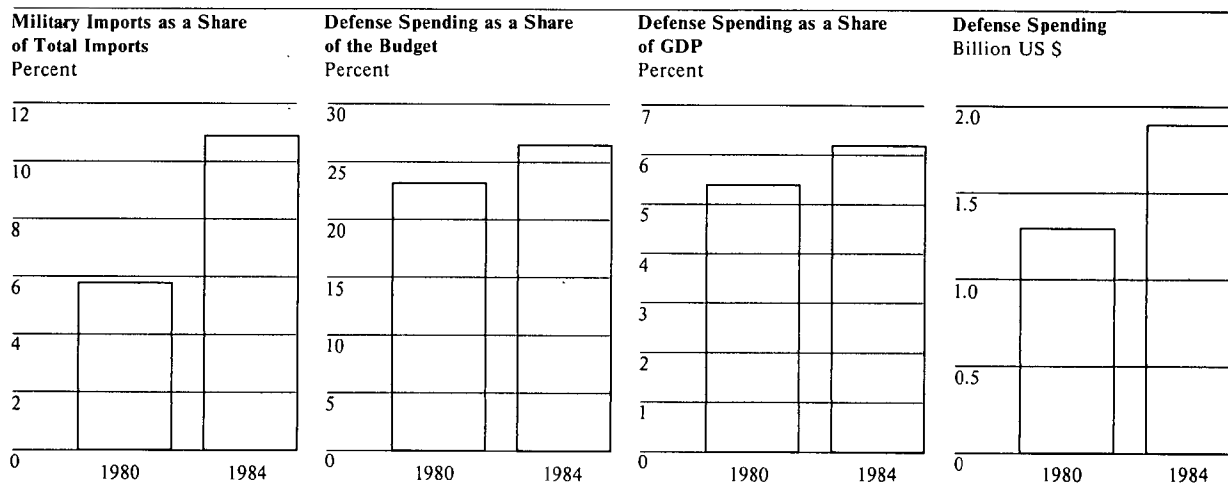
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Pakistan: Burden of Defense, 1980 and 1984

Note scale change



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required to give Pakistan a credible military capability to deter aggression or sustain an effective defense until diplomatic efforts could stop an outbreak of fighting, and most Pakistanis share this view.

Pakistan's impressive economic performance in recent years has helped to deter criticism of military spending as well. The average Pakistani has benefited directly from economic prosperity. The economy recorded six consecutive years of rapid growth through FY 1983—almost 6 percent annually, according to US Embassy estimates. Remittances from overseas workers and higher domestic wages have improved the purchasing power of middle-class and poor families. Good weather and higher government procurement prices for grain have helped farmers.

The improvement in Pakistan's foreign payments has contributed to the economic prosperity. Growth in worker remittances, expanded exports of manufactured goods, and lower imported oil costs brought Pakistan's current account deficit to the lowest level

since the early 1970s. Capital inflows were boosted by IMF drawings under the final year of a three-year Extended Fund Facility arrangement and larger aid disbursements from the United States and other Western donors. By last summer, Pakistan had doubled its foreign exchange reserves to a record \$2 billion, the equivalent of about four months of imports.

Slower Economic Growth Last Year

The Pakistani economy slowed in the past fiscal year:

- We believe GDP growth was slightly less than 4.5 percent—the lowest since Zia came to power—because of reduced agricultural output.
- The official consumer price index rose 9 percent annually compared with less than 7 percent the previous year.

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Pakistan: Balance of Payments ^a

Million US \$

	1980	1981	1982	1983	1984
Current account	-1,145	- 991	-1,610	- 554	-1,028
Trade balance	-2,516	-2,765	-3,450	-2,989	-3,334
Exports (f.o.b.)	2,341	2,798	2,319	2,627	2,668
Imports (f.o.b.)	4,857	5,563	5,769	5,616	6,002
Military (f.o.b.)	280	419	571	603	680
Net services and transfers	1,371	1,774	1,840	2,435	2,306
Worker remittances	1,748	2,095	2,224	2,886	2,737

^a Fiscal year ending 30 June.

- Continuing government budget deficits and domestic bank borrowing siphoned capital from the private sector and contributed to inflationary pressures.
- Worker remittances declined for the first time since the 1970s oil boom.
- The trade balance showed a significant deterioration because of a shortfall in earnings from cotton exports and a sharp jump in prices for imported edible oils.
- Capital inflows were reduced because of the premature termination of the Extended Fund Facility with the IMF, some difficulties lining up World Bank loans, and a slowdown in receipts of project aid and refugee assistance from foreign donors.

Outlook

Despite last year's economic slowdown, we do not believe that military spending will become a contentious political issue for Zia this year. President Zia has acted quickly to assure the population that the economic situation is under control. We believe he will continue to intervene in the marketplace to keep a lid on prices by releasing commodities from government stocks and importing basic items in short supply

to shield both the military and the general population from the economic slowdown. Foreign exchange reserves are large enough to boost imports of consumer goods in the near term.

Increased spending for consumption and defense could take a toll on development. High levels of capital investment are necessary if Pakistan is to employ its rapidly growing population. We believe that the causes of Pakistan's explosive population growth—high birth rates and a rapid decline in death rates—will last at least through the end of the century. Estimates of annual population growth rates range as high as 3 percent over the next 20 years. Thus the population could reach or exceed 150 million in the year 2000 compared with about 95 million in mid-1983. Declining job opportunities in the Middle East will eliminate an important safety valve in the labor market. the domestic labor market can absorb effectively only about half of all eligible male workers; the remainder are unemployed, underemployed, or employed abroad.

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Satisfying military and consumer needs will continue to require a high level of remittances and foreign financial assistance. Barring higher levels of outside financing, Pakistan may have to reduce nonmilitary imports. Such a move, however, would be politically risky. [REDACTED]

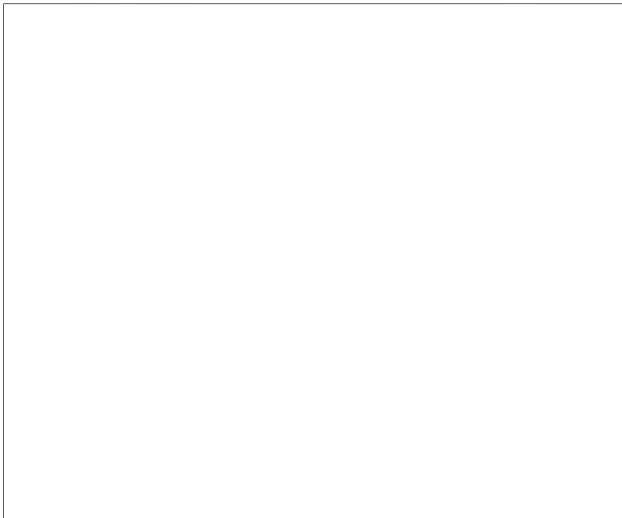
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Implications for the United States

Continued high levels of US financial assistance probably will be needed for Pakistan to continue its military modernization program and maintain fairly rapid economic growth. US assistance also is important because it helps encourage funding from other sources. We believe additional financing from Arab States, [REDACTED] will depend on the level of US support. [REDACTED]

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Turkey

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Turkey's Military: The Impact of Economic Problems

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Turkey's transition to democracy following three years of military rule has gone smoothly. Newly elected Prime Minister Turgut Ozal and President Kenan Evren—who headed the military junta from 1980 to 1983—appear to have established a good working relationship. The new constitution grants substantial powers to the President, but Evren generally supports Ozal's economic stabilization program and is likely to continue giving the Prime Minister relative freedom in pursuing economic and political reforms. In return, despite tight fiscal and monetary policies, Ozal is unlikely to reduce resources devoted to the military.

Ozal appears to share the military's belief that the terrorism, that brought the country to the brink of civil war in 1980, has only been contained, not eradicated. Ozal recognizes the threat from Turkey's northern neighbor, the Soviet Union, and has pledged his full support for the country's membership in NATO. Furthermore, he recognizes that increasingly important military challenges could develop on the borders with Syria, Iran, and Iraq.

Turkey traditionally has devoted a large share of its GDP to defense—the third highest in NATO—but it is also by far the poorest NATO member, and successive economic and political crises during the past 30 years have left its military poorly trained and ill equipped. A massive modernization program was estimated by US officials in 1981 to cost at least \$18 billion, well beyond Turkey's resources. Ankara's efforts to secure foreign military assistance, however, will continue to be hampered by budgetary constraints in donor countries and difficulties with various NATO Allies over human rights issues, the pace of democratic reforms, and the Cyprus issue.

The Military's Role

The armed forces are perhaps the most highly respected group in Turkish society and traditionally have been viewed as the guardian of the state. The military's role in Turkey has been extensive since the days

of Ataturk, the founder of the Turkish republic. The restoration of law and order following the military takeover in 1980 has probably increased its prestige, and Turks believe the military saved the country from anarchy.

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The military's primary mission is to defend the country from foreign attack and support NATO in the defense of its southeastern flank—primarily by protecting and controlling the vital Turkish Straits. Turkey maintains an armed force, including paramilitary, of about 790,000 men—the second largest in NATO. The Turks believe their primary threat is from the Soviet Union, but they are increasingly concerned about Syria's intentions and the growing Soviet influence in Damascus. In addition, Turkey sees itself surrounded by potentially hostile or unstable countries—Greece and Bulgaria to the west, and Iran and Iraq to the south and east.

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The Turkish Army also assists the national police and internal security forces (the Jandarma) and was responsible for controlling terrorism following the military intervention in 1980. Martial law still exists in all but 26 of the 67 provinces, and the military's role in the political process continues to be extensive.

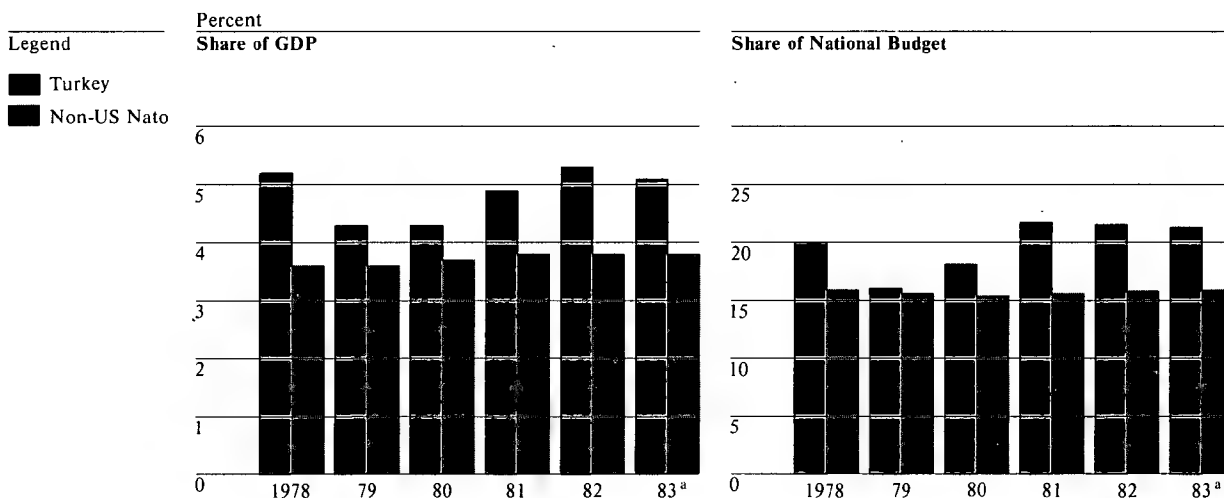
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The military traditionally has had little difficulty in securing adequate funding from the domestic budget but continues to face hard currency shortages. As President, Evren retains substantial powers under the 1982 Constitution, and he can be expected to represent military interests in the new civilian government. Defense spending as a share of the national budget has averaged about 20 percent since 1970 and nearly 5 percent of GDP. Under the new constitution, the Chief of the Turkish General Staff will continue to be a key player in determining security policy and the defense budget. Prime Minister Ozal also recognizes the need to address the military's interests and has accepted the "special programs" initiated by the

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Turkey: Defense Expenditures as a Share of GDP and the National Budget, 1978-83



^a Estimated.

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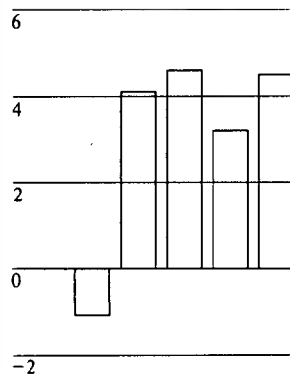
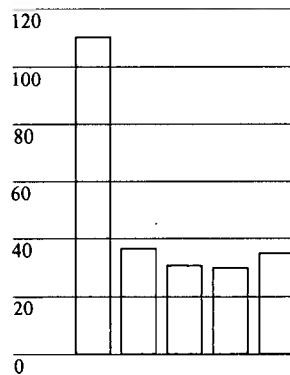
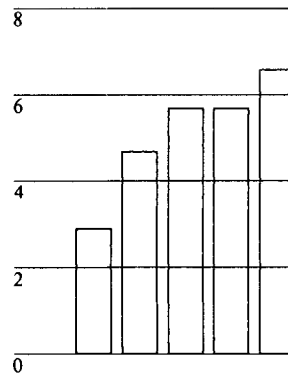
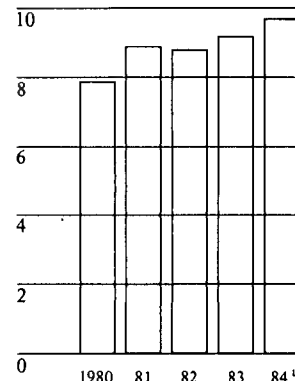
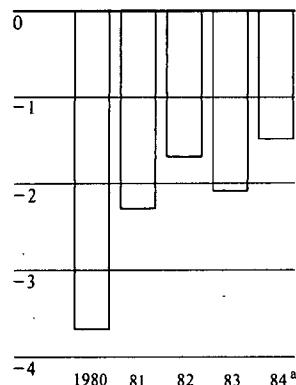
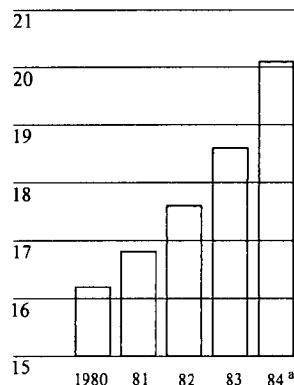
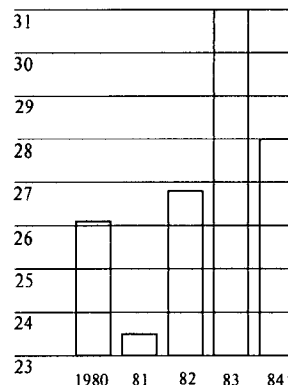
previous military government, such as the F-16 coproduction project, even though he feels they will be a heavy burden.

Despite budget problems, Turkish military officers are relatively well off. Officers are drawn from all regions of the country and mainly from low- and middle-income families. They are selected at an early age and receive extensive education between 14 and 22. While at school, the officer candidates are indoctrinated with the principles of Ataturk and military discipline. Their wages are generally similar to civilian pay, but, as officers rise in their careers, they receive generous perks, such as automobiles and shares in defense industries. The Foundation for the Promotion of the Turkish Air Force, for example, will have a 1.9-percent share in the F-16 coproduction venture. On the other hand, Turkish conscripts, who form over 90 percent of the Army, are paid very little and do not receive the perks the officers do. At best, the military keeps them employed and provides some training and education.

Economic and Political Backdrop

Turkey is emerging from economic and political turmoil, which reached its nadir in 1979-80. At the end of 1979, inflation was in triple digits, the current account deficit was large, and the country's access to private foreign credit had been completely cut. Severe shortages of many imported products—especially oil—caused great hardships and severely disrupted production. In part, this crisis was the product of fundamental weaknesses in the economy, which was modeled along the nationalistic lines enunciated by Ataturk. Economic activity was largely directed by the state, foreign investment was discouraged, and export industries were ignored. The economic collapse also resulted from policy errors as successive weak coalition governments in the 1970s resorted to price controls, expansionary fiscal and monetary policies, and an overvalued exchange rate to avoid adjusting to the oil price shock of 1973/74.

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Turkey: Economic Indicators, 1980-84**Real GNP Growth**
Percent**Retail Price Growth, Istanbul**
Percent**Exports**
Billion US \$**Imports**
Billion US \$**Current Account Balances**
Billion US \$**Total Outstanding Disbursed Debt**
Billion US \$**Debt Service Ratio**
Percent of foreign exchange earnings^a Projected.

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The country's institutions were almost paralyzed. Terrorism multiplied and at its peak claimed more than 20 lives a day. The number of "liberated areas"—effectively out of the control of government security forces—was proliferating throughout the country.

The turning point for the economy came with the January 1980 economic stabilization program. Largely drafted by Turgut Ozal—then chief economic adviser to the newly formed conservative coalition government of Prime Minister Demirel—the program

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was a serious attempt to reshape the economy along export-oriented, free market lines. It was supported by more than \$4 billion in loans from the IMF, the OECD, and the World Bank and achieved dramatic results during the next two years as inflation eased, exports boomed, and GNP growth resumed. Domestic violence, however, continued. []

The military intervened on 12 September 1980 to restore order. It suspended constitutional rights and imprisoned thousands of suspected terrorists. To depoliticize the bureaucracy, the military government rewrote the civil service laws to bar public employees from politics and barred leaders of established political parties from politics for 10 years. The generals turned over the reins of power in November 1983 to a civilian government elected under a new constitution. []

Following his election in November 1983, Prime Minister Ozal instituted a series of economic reforms to further his 1980 stabilization program and rejuvenate a slowing economy. Although GNP grew 3.2 percent in 1983, exports stagnated and the current account deficit grew to about \$2 billion. In addition, the inflation rate rose to about 40 percent by yearend, up from 25 percent in early 1983. []

Ozal's new measures included liberalizing import controls, improving export incentives, and abolishing most foreign exchange controls. Interest rates were raised above the inflation rate, and the prices of several subsidized goods were increased substantially. In addition, Ozal pushed through the Grand National Assembly a controversial bill permitting the state to sell shares in state enterprises to private investors—a dramatic departure from Ataturk's state capitalism. The measures have encouraged optimism among international bankers about Turkey's economic prospects, and the country is beginning to regain its access to the private credit market. []

We expect Ozal's policies to improve Turkey's economy. GNP is expected to rise by as much as 5 percent in 1984, and exports will probably increase 15 to 20 percent, aided by the new export incentives and daily adjustments in the exchange rate. Preliminary results for the first half of the year are encouraging; export receipts were up nearly 32 percent over the same period a year earlier. []

Turkey: Defense Expenditures, by Type, 1983

Percent

Turkey

Non-US Nato

Personnel—41.7

Other—1.9

Construction—12.1

Operations and Maintenance—34.2

Procurement—10.1

Personnel—46.7

Other—4.6

Construction—2.7

Operations and Maintenance—24.7

Procurement—21.3

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Inflation, however, continues to be Ozal's major challenge. Although several indicators point to a slowing down in the current 55 percent rate, inflation is unlikely to fall below 40 percent for 1984. []

In addition, Turkey's transition to democracy has gone smoothly since the parliamentary election in November, even though Ozal was not Evren's favored candidate. The recent municipal elections gave a further boost to Turkish democracy and another solid victory to Ozal's Motherland Party. However, because terrorism is on the rise, Ozal and Evren have been reluctant to push for an amnesty bill or lift martial law. []

Economic Stringencies and the Military

Economic problems have significantly affected Turkish military capabilities. Inflation and a shortage of foreign exchange have significantly affected military spending, since nearly all of Turkey's military equipment is imported. Defense spending, which rose sharply in the mid-1970s following the invasion of

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**Major Deficiencies
in Turkey's Armed Forces,
as Assessed by NATO**

All Forces	Ground Forces	Naval Forces	Air Force
No nuclear, biological, or chemical defense equipment	Insufficient armor, artillery, and antiarmor equipment	Obsolete maritime patrol aircraft	No all-weather air defense aircraft
Low ammunition stocks	Lack of night vision devices	Obsolete escort vessels	No replacement for obsolete NIKE-Hercules SAM system
Shortage of spare parts	Lack of low-level air defense	Lack of shore-based surface-to-air and surface-to-surface missile systems	Lack of short-range air defense protection for airfields
Lack of electronic warfare equipment	Little defensive capability against electronic warfare	Major naval bases vulnerable to aerial mining because of lack of minehunters and ground-based air defense systems	Obsolete air transport fleet
Insufficient fuel stock		Lack of point-defense missile systems	Lack of airfield damage repair capability
		No modern shipboard ASW systems	Average pilot flying hours short of NATO standards
		Lack of ASW helicopters	

Cyprus, has slowed since 1978 and would have declined in real terms without assistance from Turkey's NATO Allies. In addition, the US arms embargo following the Cyprus invasion further reduced Turkey's defense capabilities. []

Economic difficulties have delayed or scaled back several important programs, including the replacement of F-5 and F-100 squadrons, the purchase of ASW helicopters and short-range air defense missiles, and the building of sufficient war reserve ammunition stocks. There is insufficient live-fire training in all three services because of ammunition shortages. Both the Army and Air Force have had difficulties in retaining skilled and experienced personnel. Equipment procurement has been particularly hard hit, with only 10 percent of the military budget devoted to this purpose—the lowest share in NATO. Moreover, the Turks have been forced to spend a high proportion of their budget on operations and maintenance because much of their equipment is obsolete. []

Turkey depends almost totally on foreign aid for military equipment purchases. Over the past several years, foreign military aid has accounted for roughly 15 to 20 percent of the total Turkish defense budget and nearly one-fourth of spending for operations and maintenance. The United States is the chief donor, and more than three-fourths of the \$715 million in military aid the United States is providing Turkey in Fiscal Year 1984 will go toward equipment modernization. West Germany also provides significant levels of aid, while other NATO Allies provide minimal amounts. A large reduction would force Turkey to abandon several important projects, such as the F-16 coproduction deal and ammunition procurement. []

Turkey recently has begun a major effort to develop a domestic arms industry to reduce the country's dependence on foreign suppliers. Much of this effort, however, is tied to foreign military assistance programs or

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Major Turkish Modernization Programs, as of May 1984

Army	Navy	Air Force
Upgrading M-48 tanks to M48A5 model with assistance from the United States and West Germany	Signed contract for four new MEKO frigates; two to be built in West Germany and two in Turkey with assistance from several NATO Allies	Signed contract for 160 F-16 fighters, purchased with US assistance
Receiving Leopard IA3 tanks from West Germany	Received two used frigates from West Germany	Received used F-5s from Norway
Signed contract for 36 Rapier surface-to-air missile systems from Great Britain	Building German Type 209 submarines in Turkey with West German assistance	Receiving used F-104s from various NATO Allies
		Will receive 15 used F-4s from the United States

offset arrangements. For example, the Turks plan to assemble some of the frigates purchased from West Germany and are now building submarines with West German assistance. The Turks will make some parts for the 160 F-16s they are buying from the United States and will assemble the aircraft at a new aerospace factory at Murted to be completed by 1989. A small technological base and lack of a highly skilled labor force will hamper Turkey's efforts to establish an indigenous arms industry over the next several years. Moreover, political differences between Turkey and its allies over human rights, the extent of democracy, and Cyprus have affected aid levels and continue to hurt modernization efforts. []

Implications for the United States

Economic difficulties probably will not seriously weaken the ability of the Army and Jandarma to deal effectively with internal security threats, but Turkey's external military capabilities and modernization efforts will fall short of their perceived requirements. Financial constraints will grow, as large rescheduled debt payments begin to come due later this year. Turkey's ability to match the military strength of its neighbors is likely to deteriorate unless military aid is increased sufficiently to permit a large modernization effort. []

Turkey will continue to press the United States for increases in military aid and for a larger portion of aid in the form of grants. The Turks have complained about the level of and strings tied to the proposed Fiscal Year 1985 military aid. Ankara is accusing the United States of supporting the Greek positions on Cyprus and the Aegean and of allowing Cyprus to interfere with US-Turkish relations. []

Although Ankara almost certainly will not pull out of NATO any time soon, US actions on the Cyprus issue and on aid could cause the Turks to demand greater concessions under the US-Turkish Defense and Economic Cooperation Agreement, which expires in 1985. They also could press to renegotiate some 240 other security arrangements with the United States. The Turks might even consider restricting access to some of the important US facilities in the country, as they did following the US arms embargo in 1975. []

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Indonesia

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Indonesia's Military: Adjustment to Austerity

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Indonesia's current economic austerity has delayed major military improvements but has not significantly reduced military defense capabilities. The armed forces appear to be weathering austerity fairly well, and grumbling within the officer corps at present does not threaten the regime. Moreover, budget restrictions have promoted efficiency by forcing the military to focus on upgrading forces rather than on acquiring high-technology items.

Austerity, however, poses three problems over the longer term:

- The inability to fund major equipment purchases will delay plans to upgrade defenses along the archipelago.
- Personnel cutbacks may increase resentment within the officer corps, as prospects for advancement are reduced.
- Economic stagnation could lead to domestic political and social instability, necessitating greater intervention by the armed forces. This would increase the likelihood of popular resentment of repressive security measures and undermine both the military's legitimacy and its external defense capability.

Military Backdrop

The Indonesian Armed Forces (ABRI) under President Soeharto have been the dominant political force in Indonesia for the last 17 years, exercising control over the senior bureaucracy and the ruling political party. Military domination extends to the provincial and local levels through civilian positions occupied by officers. In addition, the military maintains an administrative structure parallel to local civil authorities.

The military is not well prepared to provide an effective defense against a major external threat.

Despite an army of over 200,000 men, for example, only the 30,000 men of the Army Strategic Reserve are available to meet external threats or a major insurgency. The Air Force provides at best a minimal air defense, and this is largely limited to the main islands of Java and Sumatra. The Navy cannot maintain effective control over the vast waters of the archipelago with its present fleet.

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Existing forces, however, can respond to internal threats. The internal security apparatus maintains a close watch on dissidents and potential opponents of the regime—including Islamic fundamentalists, Communists, students, and other disaffected groups—and has demonstrated that it will not tolerate any threat to the government. The armed forces have successfully contained low-level separatist insurgencies in the remote Provinces of Aceh, East Timor, and Irian Jaya. An upswing in fighting in the latter two regions in the past year, however, has posed an additional burden on the military's budget.

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Austerity: The Armed Forces Adjust

During 1979-81, oil export price increases boosted Indonesia's foreign exchange earnings, and the military undertook a massive modernization program. The result was an equipment-buying spree unmatched since the Sukarno years in the early 1960s.

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Since early 1982, the world oil glut and weak commodity markets have drastically reduced export earnings. the current account fell from a \$2.1 billion surplus in fiscal year 1980/81 to a deficit of \$7.1 billion in fiscal year 1982/83. Deteriorating external accounts also have meant slower economic growth and budget stringencies. Real GDP growth slowed from 8 percent in 1981 to 2.3 percent in 1982 and recovered only to 4 percent in 1983. Government revenues, based largely on oil, declined nearly 10 percent in real terms over the same period.

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The economic downturn has sharply curtailed the purchasing power of the military budget. The Defense Development Budget, which accounts for arms procurement and modernization expenditures, has failed to keep up with inflation and devaluation. While spending in fiscal year 1983/84 rose by 5 billion rupiah, in dollar terms the figure dropped about \$230 million, or 27 percent, from the previous year. The projected increase of 123 billion rupiah for fiscal year 1984/85 will restore military investment only to about \$700 million, still roughly 20 percent below the fiscal year 1982/83 figure. []

The reduction in the military development budget has led to the postponement or elimination of several "big ticket" weapons purchases, such as advanced fighter aircraft (probably the F-16A, F-20, or Mirage 2000) and minehunting vessels. []

Budgetary constraints have limited military exercises and foreign training as well. The number of Indonesian officers training overseas in 1983 was drastically cut back, and there are no indications of any increase this year. []

Jakarta has requested a reduction in the US International Military Education and Training Program (IMET) next year because of Indonesia's inability to provide counterpart funds. In addition to the reduction in IMET candidates, the Indonesians have cut the number of military students trained in Australia by 60 percent for fiscal year 1984/85, and may forgo such training altogether. []

Foreign military assistance programs, meanwhile, are providing little compensation for lower oil earnings and domestic budget cuts. US foreign military sales (FMS) credits have been reduced in recent years—from \$40 million in 1982 to \$25 million in 1983. Even if credits are restored to the \$40 million level as proposed by the US administration, this amount would represent a decrease in real terms from the level of several years ago. []

Financing the Indonesian Armed Forces: Off-Budget Items

The armed forces have a major stake in the economy through their control of numerous businesses that finance military spending beyond the levels provided by official defense appropriations. In addition, military officers benefit personally through their links to enterprises that provide supplemental personal income and benefits. []

Nonbudget funding sources, such as commercial enterprises, account for an unknown portion of defense-related expenditures, particularly payrolls and pensions. According to the US Embassy in Jakarta, 1984/85 budgeted defense expenditures (1.9 trillion rupiah) represent approximately 3 percent of GDP. A knowledgeable observer has estimated that nonbudget spending could be as high as budgeted expenditures. []

Indonesia's modest defense industries do little to alleviate the budget crunch. Although Jakarta, like its ASEAN partners, wants to increase local production of defense equipment, Indonesian defense industry capabilities are limited to the production of a small range of unsophisticated materiel, such as munitions and small arms. Although Minister for Research and Technology Habibie—responsible for defense industries—has launched a major expansion program, he tends to favor commercial production at the expense of military equipment. The Nurtanio aircraft plant, for example, is concentrating on commercial aircraft. []

Leaner but Meaner?

Partly because of the military's financial problems, Jakarta is reevaluating its national defense strategy. The Cabinet reshuffle of March 1983 took the first step in this direction by separating the armed forces commander from the minister of defense—ABRI

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Indonesia: Procurement of Selected Military Equipment, 1983-84

Equipment	Number	Supplier	Status
Tribal-class frigates	3	United Kingdom	For delivery in 1984
Minehunters ^a	3	The Netherlands or Italy	Rescheduled in 1983; procurement decision still pending
Attack-class patrol craft (used)	2	Australia	Delivered in 1983
F-16As	24	United States	Decision postponed in 1983; renewed interest currently noted by US Embassy
HAWK trainer aircraft	6	United Kingdom	Delivered in 1983
Boeing 737 (surveillance)	2	United States	Delivered in 1983
Rapier surface-to-air missiles		United Kingdom	Proposed for 1984-85
20-mm antiaircraft artillery (RH 202)	9	West Germany	Delivered in 1983
105-mm howitzers	172	United States	Ongoing program
105-mm SP howitzers ^a	50	The Netherlands	For delivery in 1984
AMX-10 P personnel carriers	NA	France	Canceled in 1983
Armburst antitank missiles	2,000	West Germany	Ongoing program; first delivery in 1983
Thompson TRS-2215 radars	2	France	Ongoing program; first delivery in 1983

^a Part of an ongoing larger acquisition of armored vehicles from the Netherlands.

headquarters was made responsible for operational control while the Department of Defense assumed responsibility for planning, budgeting, materiel acquisitions, and reserves. []

[] the Air Force and Navy will be unable to adequately protect the islands and waters of the archipelago before the year 2000. With this in mind, current Indonesian strategic planning calls for an island-by-island defense, relying on mobile combat units and local defense forces to meet localized territorial violations, infiltration, subversion, and separatism. []

To this end, Armed Forces Commander Murdani has proposed a major streamlining of ABRI's command structure to promote efficiency and reduce costs.

[] the reorganization calls for:

- The elimination of the joint-service National Strategic Command and a sharp reduction, if not complete elimination, of subordinate Territorial Commands.

- A reduction in the number of Army Area Commands from 16 to nine.
- Consolidation of similar Air Force and Navy Area Commands with the remaining Army Area Commands. []

In promoting a leaner fighting force through training and improved readiness, Murdani has dropped programs to upgrade the Army's 100 battalions in favor of a smaller force of 20 to 30 mobile battalions trained for combat operations throughout the archipelago. The remaining battalions are to be relegated to a static territorial defense role requiring lower readiness capabilities. []

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[redacted] The Air Force Chief of Staff has been directed to reduce senior officer positions from 400 to 100 by cutting logistic slots. Plans to strengthen the national air defense system call for completing the early warning radar network and acquiring surface-to-air missiles. The US Embassy reports that Jakarta is considering purchase of the British Rapier system. The Navy's command structure will be streamlined, and plans for expansion will undoubtedly be reevaluated. One long-term project that appears to remain unaffected is the development of a major base for fleet operations at Ratai Bay in southern Sumatra. Construction of this base, however, is scheduled over a 20-year period.

[redacted]

Effect on Morale and Capability

We have no evidence that budgetary constraints are seriously affecting morale. One reason is that the spending cuts have mainly affected force expansion plans and equipment. Although military salaries have not kept pace with inflation, President Soeharto has shown his concern over the falling real incomes of the military by granting a 15-percent salary increase this year after a two-year freeze; during this period, inflation averaged 11 percent annually. [redacted]

General Murdani's reorganization plan, however, has caused grumbling within the officer corps as younger officers see their prospects for advancement reduced, [redacted] We expect that the senior command will try to ease the effects of the reorganization on morale. [redacted]

Although the buildup of forces for external defense has been slowed, budget restrictions may prove to be a long-term benefit for the armed forces. Belt tightening has forced the military to emphasize better training and an improved command structure. We believe of a combat-ready, rapid deployment force of 30 battalions is well within Indonesian capabilities. We expect that implementation of the present strategic plan over the next five years will put the armed

forces in a much better position to deal with insurgencies and other internal threats. [redacted]

Outlook

We expect some recovery in Indonesia's export earnings over the next few years. This assumes that the world economic recovery does not falter. Nevertheless, Jakarta's projection of 5-percent average annual growth for the next five years is lower than the 7- to 8-percent annual growth rates achieved in the 1970s, and we believe actual growth may fall short of this projection. As a result, the military can expect continuing budget stringency through the end of the decade, but Jakarta will be careful not to cut operating funds below the minimum levels necessary to ensure the loyalty of the armed forces. Jakarta probably will postpone major arms acquisitions for as long as possible. [redacted]

We believe one possible exception to delayed purchases would be the acquisition of an advanced fighter, such as the F-16 or F-20, by the Air Force. [redacted]

[redacted] purchases despite having to pursue additional austerity measures in other areas. Jakarta probably would call for further FMS credits or other concessional financing to help offset purchase of a US fighter. [redacted]

Over the longer run, two intractable trends will impose greater demands on Indonesia's financial resources: rising unemployment and tighter oil export earnings. The rapid growth of the labor force—half the population of 164 million is under 16—will require major investments to create civilian jobs. In addition, rising domestic oil consumption and a relatively flat production ceiling will limit the volume of oil for export. Budget revenues in turn will be squeezed at a time when social needs press for greater spending on nondefense items. [redacted]

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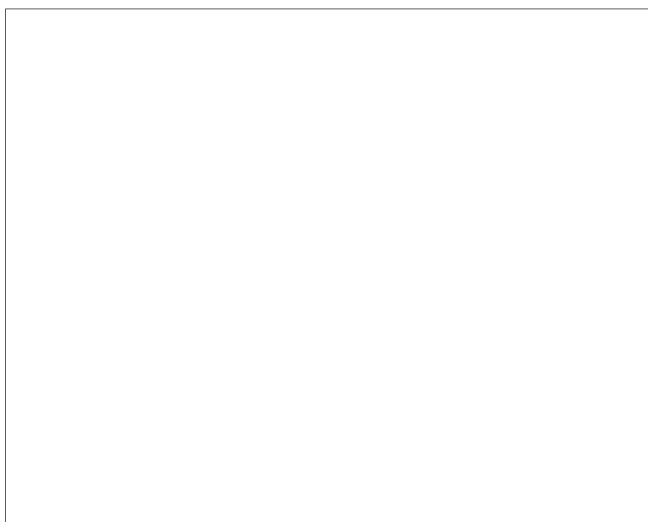
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We believe that Jakarta will continue to concentrate military capabilities on internal threats in the near term. Although some improvement in conventional forces may be made, an effective strategic capability against major external threats could be developed before the turn of the century, even if economic conditions permit an increase in defense spending. Budget cuts also could strengthen a tendency away from traditional Western arms suppliers as Jakarta seeks to reconfirm its nonaligned status and diversify its sources of supply.

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US-Indonesian Military Ties



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Cuts in the military development budget increase the importance of US FMS credits. The Indonesians objected to the 1983 reduction and would probably look on continuing low FMS levels as another indication of US indifference to Indonesian needs. A decline in understanding between the two nations could revive frictions such as the issue of US transit of Indonesian waters and airspace, although it is highly unlikely that US-Indonesian relations will deteriorate seriously under the present leadership in Jakarta.

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Philippines

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The Philippines: The Impact of Austerity on the Military

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The ongoing financial crisis is undermining the military's budget and further eroding an already weak counterinsurgency program. We do not believe recent declines in military perquisites will lead to a military coup, however, unless the security situation deteriorates precipitously or President Marcos becomes incapacitated. Over the longer term, the wilting economy could strain the US-Philippine security and aid relationship, particularly if US security assistance fails to redress the armed forces' severe equipment, supply, and logistic problems. Added stress to the relationship could result if the Communist insurgency gains strength in the latter half of the decade.

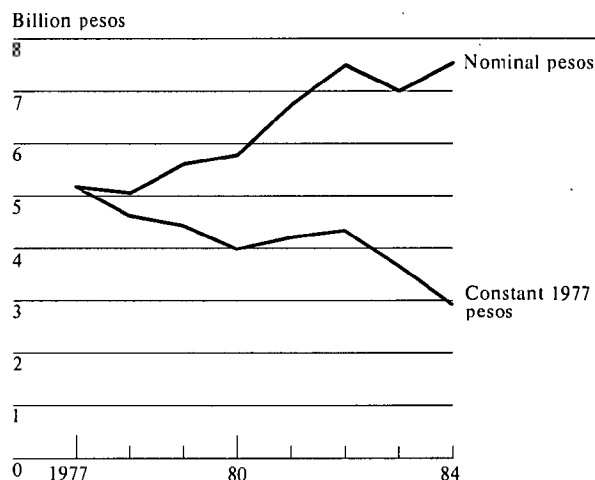
Hard Times for the Military

Since Manila halted principal repayments on its \$25 billion foreign debt last October, austerity has become the focus of government planners and Philippine businessmen. Trade financing has fallen to unprecedented levels, inventories have been depleted, and large-scale manufacturing layoffs have begun. Financial negotiations on a \$650 million IMF standby loan are holding up foreign debt rescheduling. Manila, accordingly, is restricting imports and proposing across-the-board budget cuts.

The budget crisis is eroding privileges accorded the armed forces during martial law (1972-81) and reversing the effects of the military buildup in the mid-1970s to combat the Muslim rebellion. According to our estimates, this year the government, in real terms, is spending about 75 percent of what it spent on the military in 1980 and approximately one-half of what it spent at the end of the Muslim rebellion in 1977. Military purchasing power is threatened by the depreciating exchange rate, which makes imported military hardware, fuel, and spare parts more costly.

Budget austerity and foreign exchange shortages have sharply restricted military training programs. Foreign training programs—such as the International Military Education and Training (IMET) program in the

Armed Forces of the Philippines: Defense Budget, 1977-84



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United States—have become more expensive because costs of travel and in-country living expenses, typically borne by the foreign government, have escalated with the depreciating peso. After the 21-percent devaluation of the peso last October, for example, the Philippine armed forces decided to forgo 75 slots in the 1984 IMET program. At home, the peso devaluation has slowed construction on a new training facility for the Army, and budget austerity has shrunk the Army training command's budget by 60 percent.

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Philippine military modernization plans also are on hold. Since the mid-1970s, the military budget has been devoted almost exclusively to operating expenses; in 1984 less than 10 percent of expenditures are

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The Philippine Military

The 155,000-member armed forces of the Philippines are composed of four services:

- *The Philippine Army (70,000).*
- *The Constabulary, including combat infantry battalions and law enforcement personnel (more than 40,000).*
- *The Navy, including marine and coast guard units (about 28,000).*
- *The Air Force (about 17,000).*

In addition, there are about 40,000 police under Constabulary command and a partially armed Civilian Home Defense Force of about 75,000. [redacted]

During the past decade, the armed forces have focused almost exclusively on internal security. The Philippines—which hosts two US military facilities, Clark Airbase and Subic Bay Naval Base—relies on the US defense umbrella. [redacted]

Since martial law was imposed in 1972, the armed forces have taken on growing political responsibilities:

- *Their mission—which has traditionally included external defense, internal security, and law and order—has been expanded to include promoting economic development.*
- *As the power of local political institutions declined during martial law, the military began to assume*

the role of “patron” traditionally held by powerful local politicians, and prosecute many civil cases normally handled by the judiciary.

- *Military courts established during martial law still can adjudicate cases involving civilians accused of subversion.*
- *The sheer size of the military, which tripled since 1972, has made it a visible force to be reckoned with at the local level.* [redacted]

The role of the military in civilian government decisionmaking at the national level remains shrouded and is most likely limited to areas—such as defense policy and national security—that are its natural interests. Nonetheless, President Marcos, in apparent recognition of the military's evolving political role, recently invited the Chief of Staff of the Armed Forces to Cabinet meetings. Although we believe the military remains subservient to the president and probably would not move against him, the ethic that placed military loyalties subservient to the civilian constitution was severely eroded under martial law. As a result, the military probably will be drawn into the succession struggle. [redacted]

devoted to new equipment. Although most military equipment purchases traditionally are funded through foreign military aid programs, even these, [redacted] *have been hurt. Navy construction and modernization programs, for example, are bogged down because of local funding constraints.* [redacted]

1981 Manila has identified the revolutionary movement as its most serious internal security threat. The Communist Party of the Philippines and its military wing, the New People's Army (NPA), commands 8,000 to 12,000 guerrillas in virtually every province. If current trends continue, we believe the insurgents will be able to disrupt economic activity within several years. [redacted]

The Cost of the Counterinsurgency Campaign

The government's counterinsurgency program chronically suffers from poor logistic support, equipment shortages, and low morale. Although the government publicly downplays the Communist insurgency, since

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Equipment and materiel shortages are a major cause of the weak counterinsurgency effort, and this is likely to worsen as austerity takes hold. A commanding general on the insurgent-ridden island of Mindanao

lacked sufficient transport and communications equipment to launch a sustained offensive against the guerrillas. His command—which covers five provinces and 31,630 square kilometers—has only three helicopters and seven trucks; some are sidelined with maintenance problems at any given time.

Equipment shortages are worse where the insurgency has received less government and media attention. Each of the four battalions in the Northern Command—which covers 11 provinces on Northern Luzon—has a single two-and-a-half-ton truck, one helicopter, and one fixed-wing aircraft to fight the insurgency. Recently on Luzon, a military commander complained that he was unable to attack an NPA squad that had walked into an ambush because his unit lacked automatic weapons, had limited ammunition, and was outgunned.

Because of the sagging purchasing power of military salaries, we believe military abuses—for example, theft, extortion, and graft—are increasing. We believe this is alienating local support for the government and further weakening the counterinsurgency effort.

it is virtually impossible for officers to maintain living standards without supplementing their income, legally or otherwise. The situation is worse for troops in the field, who receive a daily subsistence allowance of only 53 cents. In the first instance of its kind, a battalion commander was killed by his own men for stealing their pay earlier this year.

Military Relations With the United States

The Philippine military views US security assistance as compensation for sagging domestic budget allocations. For example,

Initial assistance requests could take the form of increased training or stepped-up military aid and equipment.

and has requested easier repayment terms for fiscal year 1984 FMS credits. Manila may also request that a portion of its FMS repayment obligations be rescheduled through the Paris Club, along with other official government-to-government debt.

given the Philippines. The House Foreign Affairs and the House Appropriations Committees have recommended that the FY 1985 appropriation of \$60 million in foreign military sales credit be delayed in favor of increasing the appropriation of economic assistance by an equivalent amount. The Senate Foreign Relations Committee has proposed that the switch should affect \$30 million worth of assistance rather than \$60 million.

The congressional proposals have particularly upset the Philippine armed forces, which lobbied hard for a more favorable compensation package during last year's negotiations to renew the Military Bases Agreement but were overruled by Marcos.

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US Base Money

During the review of the Military Base Agreement in April 1983, the United States pledged to exert its "best efforts" to secure security assistance totaling \$900 million over the five-year period 1985-89. This assistance includes grant military aid of \$125 million, economic development assistance of \$475 million, and Foreign Military Sales credits of \$300 million for the purchase of US-manufactured military equipment.

and the scheduled disbursement of aid will probably change. For its part, Manila has proposed that the appropriation of several categories of aid be accelerated (with the exception of Economic Support Fund disbursements) to ease the country's ongoing financial crisis:

Million US \$						
Category of Aid	1985	1986	1987	1988	1989	Total
Foreign Military Sales (FMS) Credits						
US proposal	60	60	60	60	60	300
Philippine proposal	110	109	81			300
Military Assistance Program (MAP)						
US proposal	25	25	25	25	25	125
Philippine proposal	58	48	19			125
Economic Support Fund	95	95	95	95	95	475

Outlook: Economic Malaise . . .

Even after agreement with the IMF is reached and commercial debt rescheduling is completed later this year, the Philippine economy will face several difficult years. We estimate a 5- to 6-percent contraction of GNP in 1984 as imports and domestic credit are constrained. Growth will remain sluggish over the medium term. In addition, last October's devaluation and rapid monetary expansion since then have pushed inflation in recent months to a 60-percent annual rate.

Another devaluation would put additional upward pressures on prices.

We believe there is little likelihood that the decline in resources available to the military will be reversed. At current exchange rates, we estimate the government budget for 1985 at approximately \$4.3 billion, of which roughly 12 percent or about \$500 million can be expected to go to the military. If the peso depreciates to 18 pesos to the dollar, as anticipated, and inflation continues at present rates, the real purchasing power of the military could drop by about 40 percent in 1985.

These constraints could force the military to defer the purchase of costly, high-technology systems—such as F-16s—in favor of a more gradual modernization that would better prepare the military for fighting the insurgency. Among other things, equipment purchases aimed at improving counterinsurgency capabilities would include helicopters, communications equipment, trucks, and armored cars. On balance, we believe austerity will continue to have an overall weakening effect on the counterinsurgency effort.

... and Coup Prospects

Although the economy will continue to erode the interests of the military, a coup sparked by disgruntled officers is, in our view, only a remote possibility. The likelihood of the military's seizing power will depend less on how badly their economic interests suffer in absolute terms than on how they fare relative to other groups. President Marcos's decision in May to increase military salaries by 10 percent demonstrates that military personnel are still relatively better off than the majority of the labor force. Although budget cuts will be severe, the military's 1984 share of the national budget will be 13 percent, according to our estimates—comparable to what the other ASEAN states spend.¹

¹ Although the accounting periods for the ASEAN states vary, during fiscal year 1983 only Thailand (at 19.9 percent) and Malaysia (at 16.8 percent) spent a greater share of their budget for the military. Singapore and Indonesia spend between 11 and 12 percent.

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There is a greater chance of a military takeover, however, if the financial crisis provokes widespread civil disorder in the politically strategic capital or the insurgency poses a threat to government control in the provinces sooner than we expect. Urban disorder could take the form of widespread strikes, mass antigovernment demonstrations, or rioting in response to food and fuel price hikes. In that case, we believe the military would intervene. [REDACTED]

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The economic crisis is likely to widen existing divisions within the military. There already is a split between a "professional" group in the senior officer corps—typically associated with Vice Chief of Staff Gen. Fidel Ramos—and a group that is considered more corrupt—loyal to Armed Forces Chief of Staff Gen. Fabian Ver. These rifts could become more acute as the insurgency gains ground, equipment shortages mount, and economic difficulties make military corruption less palatable to the professional officer corps. [REDACTED]

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Nigeria

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Nigeria's Military: Difficult Times Ahead

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Economic hard times are straining the already delicate fabric of Nigeria's armed forces, which have been governing since a senior officer coup last December. The current government—headed by Maj. Gen. Muhammadu Buhari and dominated by his fellow northern Muslim officers—appears increasingly bewildered by the magnitude of Nigeria's economic problems and is in constant fear of being ousted by disgruntled soldiers. We expect Nigeria's political climate to become increasingly volatile as military leaders strive to contain the political fallout from Nigeria's economic decline.

Any regime in Nigeria must be responsive to the attitudes and ambitions of the officer corps and the military's increasing equipment and training needs. The ability of senior officers to ameliorate discontent in the military, however, is being weakened by worsening economic conditions. In our judgment, senior officers will continue to pay lipservice to the goal of strengthening and modernizing the armed forces, but there is little likelihood of significant improvement in the overall capabilities of the armed forces.

The Military Inherits Chaos

Nigeria is in the midst of its worst economic crisis since independence in 1960, partly because of the world oil glut. Nigerian oil production—which provides more than 95 percent of foreign exchange receipts and about 90 percent of government revenues—has fallen from 2.3 million b/d in 1979 to a range of 1.2-1.6 million b/d in 1984. Oil revenues—which peaked at \$26 billion in 1980—are estimated at \$15 billion this year. With export earnings plummeting, Nigeria's imports are dropping sharply. Most sectors of Nigeria's import-dependent economy have been crippled by the lack of imported raw materials and most development projects have been halted.

The need to meet a growing debt-servicing burden is adding to the military's domestic woes. Extensive

borrowing by former President Shagari's civilian government is now causing Lagos to spend a large portion of its export revenues on servicing its debt. Nigeria's debt service on its medium- and long-term debt will exceed \$3 billion this year. In addition, Lagos thus far has been unable to clear up its \$6-9 billion in short-term arrears, and this is impeding its ability to import.

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Running From Economic Reality

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Buhari and his fellow senior officers promised swift and decisive action to revive Nigeria's economy after they seized power, but they were unaware of the magnitude of the problem. Early pronouncements stressed that more prudent management and the return of ill-gotten gains by former civilian politicians were the keys to economic recovery. Senior officers quickly set out to "control" the economy by forcing powerful traders to release hoarded goods and lower prices. At the same time, senior officers sought to reassure international creditors that Nigeria would honor its financial obligations and follow through on negotiations with the IMF.

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After eight months in power, however, the regime appears increasingly adrift and unsure of what economic correctives to adopt. While the ruling military council now appears to recognize that there are no "quick fixes," responsibility for charting a long-term economic-recovery plan remains unassigned. In our view, the Buhari regime makes most economic decisions in a crisis atmosphere, attempting to minimize the short-run political impact of its actions. As a consequence, the government has been sending contradictory economic signals by its conflicting policy statements. In the critically important oil sector, for example, the managing director of the national oil company and the federal minister for petroleum often find themselves at odds over what production policies the government should pursue.

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The government has taken some steps to adjust spending to reduced revenues, but these moves have made life more difficult for most Nigerians. Since seizing power, the government has purged as many as 50,000 bureaucrats from federal and state civil services, reduced spending on already inadequate public services, frozen wages, and reintroduced several unpopular taxes and fees. Moreover, the government's efforts to set import priorities and gain better control of foreign exchange allocation have been undermined by bureaucratic inefficiency and persistent corruption.

The Buhari government has been similarly unsuccessful in sorting out Nigeria's tangled international financial situation. Its refusal to devalue the naira, liberalize trade restrictions, or modify domestic petroleum subsidies continues to block an IMF agreement and stall negotiations with Nigeria's foreign creditors. In July the regime obtained a temporary 150,000-b/d increase in its 1.3 million-b/d OPEC quota, but will have difficulty selling the added production unless it cuts prices. Moreover, Lagos's efforts to secure bilateral assistance—from countries such as Saudi Arabia—hold little promise of success.

Political Mission and Military Priorities

Nigeria's military views itself as the guarantor and protector of national unity, and the final arbiter of political power. Although the second-largest military force in black Africa—behind Ethiopia—the armed forces' prolonged involvement in politics has undermined its capability to respond to an external threat or to maintain a high level of readiness. The problems plaguing the military—endemic to most Third World countries—have been compounded in Nigeria by the rapid expansion and contraction of personnel. The military grew rapidly from 7,000 at independence in 1960 to over 250,000 during Nigeria's 1967-70 civil war to its present strength of about 130,000.

Nigeria's military establishment is beset by the same political, social, ethnic, regional, and religious divisions that characterize the society at large. Although the precise ethnic composition of the military is

unknown, southern—particularly Yoruba—and minority tribesmen from the Middle Belt region historically have found themselves in competition with largely Muslim Hausa-Fulani northerners. These tensions are heightened by personal ambitions and rivalries among the highly politicized officer corps.

Economic hard times notwithstanding, the current government has promised to take decisive action to modernize and upgrade military capabilities. In particular, the current regime has acknowledged that it needs to:

- Continue paring the military to what is believed to be its optimum strength of between 80,000 and 100,000.
- Recruit a younger and more literate military force.
- Increase training, which suffers from a lack of purpose, coordination, and funding.
- Purchase more modern weaponry while improving the availability of spare parts, upgrading maintenance, and establishing more dependable communications links.

Impact of Recent Austerity

The extent to which austerity has hurt the armed forces remains unclear. Soldiers still enjoy better living standards than their civilian counterparts, but inflation and rising civilian unemployment are adding to the already sizable number of extended-family members who depend on a soldier's paycheck. Thus far, economic realities have not tempered the Buhari government's promises to buy more modern weaponry, upgrade training, and improve soldiers' living conditions. The government's May 1984 budget, for example, allocates 9.3 percent of total spending to defense, while the deposed Shagari government recommended 10 percent. In our judgment, while senior officers recognize the importance of adjustments, they are unwilling to slash military spending given their concerns about forestalling a coup attempt by more junior officers.

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As a consequence, the government continues to make military decisions with little apparent concern for long-range economic consequences. The regime, for example, has decided to proceed with the controversial purchase of Jaguar aircraft from the United Kingdom despite reservations about the cost of the contract negotiated by the Shagari government. Similarly, the regime is attempting to improve training by upgrading the newly named Armed Forces University—formerly the Nigerian Defense Academy—to a degree-granting institution. The government also has launched a campaign to eradicate illiteracy in the enlisted ranks, which is perhaps as high as 70 percent. The regime has threatened to expel those who fail to achieve literacy in a specified time, even though this would add to unemployment. []

Economic Squeeze Poses Dangers

Despite Nigeria's currently dim economic outlook and political uncertainty, we expect no major changes in defense policies or spending as long as senior officers maintain control. We judge that senior officers believe they have little choice but to continue with stopgap policies designed to placate demands from more junior officers. The regime is more likely, in our judgment, to pursue a few "big ticket" purchases—particularly for the Air Force—while scaling back and canceling some smaller contracts as evidence of the military's bearing its share of economic hard times. Promises of improved training—partially to gain the support of less senior officers—will be highly publicized, but, in our view, will be difficult to achieve given current economic realities. []

In the near term, we doubt there will be significant improvements in the military's overall ability to respond to internal and external threats. In our judgment, the military will be distracted from its professional missions, as long as it exercises direct political power. The squeeze on government revenues also will hurt. Projects such as the Defense Industries Corporation designed to make Nigeria largely self-sufficient in small arms production will remain high on the government's priority list but probably will receive little funding. []

Although spending cutbacks are required for economic stabilization, senior officers—well aware of the threat of a junior- or middle-grade officer coup—are unlikely to make sweeping changes in the military's composition or organization. Wholesale retrenchments could provoke more coup plotting and would add to already high unemployment. Instead, we believe military leaders will continue to retire and shuffle officers of suspect loyalty as need be, while giving high priority to ensuring that salaries are paid on time and that food and housing needs are met at minimally acceptable levels. Even so, we believe that the regime will be unable to shelter the military from economic adversity, particularly enlisted men whose families are being hurt by the contracting economy. []

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As economic stringencies worsen, senior officers comprising the Buhari regime face a struggle in countering the impression that they constitute a "privileged class." [] growing perceptions among junior- and middle-grade officers—and we believe in the enlisted ranks as well—that the current leadership is corrupt, though not yet on the scale on their civilian predecessors. In our view, ostentatious wealth—which all past governments have exhibited—during a time of economic crisis will harden attitudes of frustrated junior- and middle-grade officers. It will also widen the gap between better paid senior officers and those struggling to make ends meet in the enlisted ranks. []

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As the Army is drawn more heavily into politics, including responsibility for maintaining public order in the face of economic decline, we expect force readiness to decrease. Serious logistic and maintenance problems—particularly spare parts shortages—will be aggravated by declining availability of foreign exchange. []

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Political Outlook

In our judgment, Nigeria's military is likely to become even more politicized and divided as long as it remains in power. In particular, we believe senior

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officers will find it increasingly difficult to maintain discipline over junior-and middle-grade officers disillusioned and frustrated by the inability of the present government to make good on its economic and political promises.

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In our view, the best the current government can hope for in the short run is to keep frustrated junior officers off balance and in check, while cushioning the impact of continued economic decline on the military. Although this could give the impression that Nigeria is "muddling through," we see little prospect that any government will be able to carry out more far-reaching economic reforms essential for longer term political stability.

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